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# ANNUAL STATEMENT

**For the Year Ended December 31, 2018**

of the Condition and Affairs of the

# Wellmark, Inc.

NAIC Group Code..... 0770, 0770 (Current Period) (Prior Period) | NAIC Company Code..... 88848 | Employer's ID Number..... 42-0318333

Organized under the Laws of IA | State of Domicile or Port of Entry IA | Country of Domicile US

Licensed as Business Type Life, Accident & Health | Is HMO Federally Qualified? Yes [ ] No [ ]

Incorporated/Organized..... September 19, 1939 | Commenced Business..... October 1, 1939

| | | |
|---|---|---|
| Statutory Home Office | 1331 Grand Avenue .. Des Moines .. IA .. US .. 50309-2901<br>*(Street and Number) (City or Town, State, Country and Zip Code)* | |
| Main Administrative Office | 1331 Grand Avenue .. Des Moines .. IA .. US .. 50309-2901<br>*(Street and Number) (City or Town, State, Country and Zip Code)* | 515-376-4500<br>*(Area Code) (Telephone Number)* |
| Mail Address | 1331 Grand Avenue .. Des Moines .. IA .. US .. 50309-2901<br>*(Street and Number or P. O. Box) (City or Town, State, Country and Zip Code)* | |
| Primary Location of Books and Records | 1331 Grand Avenue .. Des Moines .. IA .. US .. 50309-2901<br>*(Street and Number) (City or Town, State, Country and Zip Code)* | 515-376-4500<br>*(Area Code) (Telephone Number)* |
| Internet Web Site Address | www.wellmark.com | |
| Statutory Statement Contact | Christa Daneen Kuennen<br>*(Name)* | 515-376-4144<br>*(Area Code) (Telephone Number) (Extension)* |
| | kuennencd@wellmark.com<br>*(E-Mail Address)* | 515-376-9054<br>*(Fax Number)* |

## OFFICERS

| Name | Title | Name | Title |
|---|---|---|---|
| 1. John Douglas Forsyth | Chairman & CEO | 2. Francis (Frank) James Stork | Secretary |
| 3. David Seth Brown | EVP, CFO & Treasurer | 4. | |

## OTHER

Marcelle Jo Chickering
John Thomas Clendenin #
Michael James Crowley
Michele Ann Druker
G. Paul Eddy
Timothy Robert Gutshall MD
Cory Randall Harris
Laura Jean Jackson
Vicki Lynn Signor

## DIRECTORS OR TRUSTEES

Thomas Matthew Cink MD
Melanie Creagan Dreher PhD, RN
John Douglas Forsyth-Chairman
Daryl Keith Henze
William Curt Hunter
Paul Edward Larson
Angeline Marie Lavin
Terrence Joseph Mulligan
David George Neil
Timothy John Theriault
Therese Michele Vaughan

State of........ Iowa
County of..... Polk

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions* and *Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

| | | |
|---|---|---|
| (Signature) | (Signature) | (Signature) |
| John Douglas Forsyth | Francis (Frank) James Stork | David Seth Brown |
| 1. (Printed Name) | 2. (Printed Name) | 3. (Printed Name) |
| Chairman & CEO | Secretary | EVP, CFO & Treasurer |
| (Title) | (Title) | (Title) |

Subscribed and sworn to before me
This ________ day of ____________ 2019

a. Is this an original filing? Yes [ X ] No [ ]
b. If no
1. State the amendment number
2. Date filed
3. Number of pages attached

# ASSETS

| | Current Year 1 Assets | Current Year 2 Nonadmitted Assets | Current Year 3 Net Admitted Assets (Cols. 1 - 2) | Prior Year 4 Net Admitted Assets |
|---|---|---|---|---|
| 1. Bonds (Schedule D) | 877,978,768 | | 877,978,768 | 893,364,993 |
| 2. Stocks (Schedule D): | | | | |
| 2.1 Preferred stocks | 1,616,562 | 859,760 | 756,802 | 18,097 |
| 2.2 Common stocks | 862,172,754 | 17,157,390 | 845,015,364 | 884,970,821 |
| 3. Mortgage loans on real estate (Schedule B): | | | | |
| 3.1 First liens | | | 0 | |
| 3.2 Other than first liens | | | 0 | |
| 4. Real estate (Schedule A): | | | | |
| 4.1 Properties occupied by the company (less $.........0 encumbrances) | 155,804,028 | | 155,804,028 | 162,809,577 |
| 4.2 Properties held for the production of income (less $.........0 encumbrances) | | | 0 | |
| 4.3 Properties held for sale (less $.........0 encumbrances) | | | 0 | |
| 5. Cash ($.....90,156,934, Schedule E-Part 1), cash equivalents ($.....59,067,316, Schedule E-Part 2) and short-term investments ($.....13,432,227, Schedule DA) | 162,656,477 | | 162,656,477 | 147,328,863 |
| 6. Contract loans (including $.........0 premium notes) | | | 0 | |
| 7. Derivatives (Schedule DB) | | | 0 | |
| 8. Other invested assets (Schedule BA) | 49,297,883 | 7,266,640 | 42,031,243 | 13,784,403 |
| 9. Receivables for securities | 2,034,117 | | 2,034,117 | 161,611 |
| 10. Securities lending reinvested collateral assets (Schedule DL) | | | 0 | |
| 11. Aggregate write-ins for invested assets | 0 | 0 | 0 | 0 |
| 12. Subtotals, cash and invested assets (Lines 1 to 11) | 2,111,560,589 | 25,283,790 | 2,086,276,799 | 2,102,438,365 |
| 13. Title plants less $.........0 charged off (for Title insurers only) | | | 0 | |
| 14. Investment income due and accrued | 7,497,355 | 43,212 | 7,454,143 | 7,184,753 |
| 15. Premiums and considerations: | | | | |
| 15.1 Uncollected premiums and agents' balances in the course of collection | 82,488,574 | | 82,488,574 | 90,874,635 |
| 15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $.........0 earned but unbilled premiums) | | | 0 | |
| 15.3 Accrued retrospective premiums ($.....3,864,831) and contracts subject to redetermination ($.....8,465,058) | 12,329,889 | | 12,329,889 | 16,455,885 |
| 16. Reinsurance: | | | | |
| 16.1 Amounts recoverable from reinsurers | 50,085 | 50,085 | 0 | |
| 16.2 Funds held by or deposited with reinsured companies | | | 0 | |
| 16.3 Other amounts receivable under reinsurance contracts | | | 0 | |
| 17. Amounts receivable relating to uninsured plans | 96,651,964 | 936,035 | 95,715,929 | 88,184,114 |
| 18.1 Current federal and foreign income tax recoverable and interest thereon | 31,368,757 | | 31,368,757 | 15,287,016 |
| 18.2 Net deferred tax asset | 35,250,000 | 8,151,000 | 27,099,000 | 10,470,000 |
| 19. Guaranty funds receivable or on deposit | 23,270,000 | | 23,270,000 | 23,270,000 |
| 20. Electronic data processing equipment and software | 3,051,783 | 257,447 | 2,794,336 | 4,459,483 |
| 21. Furniture and equipment, including health care delivery assets ($.........0) | 15,834,834 | 15,834,834 | 0 | |
| 22. Net adjustment in assets and liabilities due to foreign exchange rates | | | 0 | |
| 23. Receivables from parent, subsidiaries and affiliates | 3,263,274 | 3,230,269 | 33,005 | 4,254,464 |
| 24. Health care ($.....53,549,425) and other amounts receivable | 79,980,625 | 10,725,138 | 69,255,487 | 60,042,604 |
| 25. Aggregate write-ins for other-than-invested assets | 88,092,807 | 87,512,746 | 580,061 | 601,563 |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 to 25) | 2,590,690,536 | 152,024,556 | 2,438,665,980 | 2,423,522,882 |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts | | | 0 | |
| 28. TOTAL (Lines 26 and 27) | 2,590,690,536 | 152,024,556 | 2,438,665,980 | 2,423,522,882 |

**DETAILS OF WRITE-INS**

| | | | | |
|---|---|---|---|---|
| 1101. | | | 0 | |
| 1102. | | | 0 | |
| 1103. | | | 0 | |
| 1198. Summary of remaining write-ins for Line 11 from overflow page | 0 | 0 | 0 | 0 |
| 1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above) | 0 | 0 | 0 | 0 |
| 2501. Prepaid Premium Tax Assets | 41,913,239 | 41,913,239 | 0 | |
| 2502. Prepaid Pension Costs | 25,088,716 | 25,088,716 | 0 | |
| 2503. Other Prepaid Expenses | 18,598,332 | 18,598,332 | 0 | |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | 2,492,520 | 1,912,459 | 580,061 | 601,563 |
| 2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above) | 88,092,807 | 87,512,746 | 580,061 | 601,563 |

# LIABILITIES, CAPITAL AND SURPLUS

| | Current Period 1 Covered | Current Period 2 Uncovered | Current Period 3 Total | Prior Year 4 Total |
|---|---|---|---|---|
| 1. Claims unpaid (less $..........0 reinsurance ceded) | 350,292,672 | | 350,292,672 | 348,224,160 |
| 2. Accrued medical incentive pool and bonus amounts | 18,795,281 | | 18,795,281 | 18,991,304 |
| 3. Unpaid claims adjustment expenses | 3,794,806 | | 3,794,806 | 4,005,076 |
| 4. Aggregate health policy reserves, including the liability of $..........0 for medical loss ratio rebate per the Public Health Service Act | 52,896,427 | | 52,896,427 | 63,022,744 |
| 5. Aggregate life policy reserves | | | 0 | |
| 6. Property/casualty unearned premium reserves | | | 0 | |
| 7. Aggregate health claim reserves | | | 0 | |
| 8. Premiums received in advance | 106,045,409 | | 106,045,409 | 98,704,566 |
| 9. General expenses due or accrued | 206,238,693 | | 206,238,693 | 198,219,761 |
| 10.1 Current federal and foreign income tax payable and interest thereon (including $..........0 on realized capital gains (losses)) | | | 0 | |
| 10.2 Net deferred tax liability | | | 0 | |
| 11. Ceded reinsurance premiums payable | | | 0 | |
| 12. Amounts withheld or retained for the account of others | 2,649,940 | | 2,649,940 | 2,701,161 |
| 13. Remittances and items not allocated | 20,784,030 | | 20,784,030 | 20,169,630 |
| 14. Borrowed money (including $..........0 current) and interest thereon $..........0 (including $..........0 current) | | | 0 | |
| 15. Amounts due to parent, subsidiaries and affiliates | 36,131,163 | | 36,131,163 | 46,319,055 |
| 16. Derivatives | | | 0 | |
| 17. Payable for securities | 9,105,426 | | 9,105,426 | 2,308,037 |
| 18. Payable for securities lending | | | 0 | |
| 19. Funds held under reinsurance treaties with ($..........0 authorized reinsurers, $..........0 unauthorized reinsurers and $..........0 certified reinsurers) | | | 0 | |
| 20. Reinsurance in unauthorized and certified ($..........0) companies | | | 0 | |
| 21. Net adjustments in assets and liabilities due to foreign exchange rates | | | 0 | |
| 22. Liability for amounts held under uninsured plans | 41,058,371 | | 41,058,371 | 52,613,725 |
| 23. Aggregate write-ins for other liabilities (including $.....2,146,598 current) | 23,569,779 | 0 | 23,569,779 | 44,124,195 |
| 24. Total liabilities (Lines 1 to 23) | 871,361,997 | 0 | 871,361,997 | 899,403,414 |
| 25. Aggregate write-ins for special surplus funds | XXX | XXX | 0 | 46,400,000 |
| 26. Common capital stock | XXX | XXX | | |
| 27. Preferred capital stock | XXX | XXX | | |
| 28. Gross paid in and contributed surplus | XXX | XXX | | |
| 29. Surplus notes | XXX | XXX | | |
| 30. Aggregate write-ins for other-than-special surplus funds | XXX | XXX | 0 | 0 |
| 31. Unassigned funds (surplus) | XXX | XXX | 1,567,303,983 | 1,477,719,468 |
| 32. Less treasury stock at cost: | | | | |
| 32.1 .....0.000 shares common (value included in Line 26 $..........0) | XXX | XXX | | |
| 32.2 .....0.000 shares preferred (value included in Line 27 $..........0) | XXX | XXX | | |
| 33. Total capital and surplus (Lines 25 to 31 minus Line 32) | XXX | XXX | 1,567,303,983 | 1,524,119,468 |
| 34. Total liabilities, capital and surplus (Lines 24 and 33) | XXX | XXX | 2,438,665,980 | 2,423,522,882 |

**DETAILS OF WRITE-INS**

| | 1 Covered | 2 Uncovered | 3 Total | 4 Total |
|---|---|---|---|---|
| 2301. Other Liabilities | 21,668,562 | | 21,668,562 | 21,104,921 |
| 2302. Liability for Postretirement Benefits | 290,098 | | 290,098 | 3,968,352 |
| 2303. Escheat Liability | 1,611,119 | | 1,611,119 | 1,523,482 |
| 2398. Summary of remaining write-ins for Line 23 from overflow page | 0 | 0 | 0 | 17,527,440 |
| 2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above) | 23,569,779 | 0 | 23,569,779 | 44,124,195 |
| 2501. Special Surplus for Health Insurer Fee | XXX | XXX | | 46,400,000 |
| 2502. | XXX | XXX | | |
| 2503. | XXX | XXX | | |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | XXX | XXX | 0 | 0 |
| 2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above) | XXX | XXX | 0 | 46,400,000 |
| 3001. | XXX | XXX | | |
| 3002. | XXX | XXX | | |
| 3003. | XXX | XXX | | |
| 3098. Summary of remaining write-ins for Line 30 from overflow page | XXX | XXX | 0 | 0 |
| 3099. Totals (Lines 3001 through 3003 plus 3098) (Line 30 above) | XXX | XXX | 0 | 0 |

# STATEMENT OF REVENUE AND EXPENSES

| | Current Year 1 Uncovered | Current Year 2 Total | Prior Year 3 Total |
|---|---|---|---|
| 1. Member months | XXX | 14,804,430 | 15,050,662 |
| 2. Net premium income (including $..........0 non-health premium income) | XXX | 2,615,762,137 | 2,656,090,417 |
| 3. Change in unearned premium reserves and reserve for rate credits | XXX | 10,126,318 | (9,147,114) |
| 4. Fee-for-service (net of $..........0 medical expenses) | XXX | | |
| 5. Risk revenue | XXX | | |
| 6. Aggregate write-ins for other health care related revenues | XXX | 0 | 0 |
| 7. Aggregate write-ins for other non-health revenues | XXX | 0 | 0 |
| 8. Total revenues (Lines 2 to 7) | XXX | 2,625,888,455 | 2,646,943,303 |
| **Hospital and Medical:** | | | |
| 9. Hospital/medical benefits | | 1,490,321,649 | 1,519,418,129 |
| 10. Other professional services | | 230,496,928 | 227,525,327 |
| 11. Outside referrals | | 71,914,523 | 73,034,469 |
| 12. Emergency room and out-of-area | | 88,081,354 | 83,575,526 |
| 13. Prescription drugs | | 362,652,272 | 351,274,618 |
| 14. Aggregate write-ins for other hospital and medical | 0 | 0 | 0 |
| 15. Incentive pool, withhold adjustments and bonus amounts | | 20,527,446 | 21,439,334 |
| 16. Subtotal (Lines 9 to 15) | 0 | 2,263,994,172 | 2,276,267,403 |
| **Less:** | | | |
| 17. Net reinsurance recoveries | | | 960,098 |
| 18. Total hospital and medical (Lines 16 minus 17) | 0 | 2,263,994,172 | 2,275,307,305 |
| 19. Non-health claims (net) | | | |
| 20. Claims adjustment expenses, including $.....18,798,597 cost containment expenses | | 91,852,920 | 97,845,527 |
| 21. General administrative expenses | | 274,070,264 | 262,907,000 |
| 22. Increase in reserves for life and accident and health contracts including $..........0 increase in reserves for life only) | | | |
| 23. Total underwriting deductions (Lines 18 through 22) | 0 | 2,629,917,356 | 2,636,059,832 |
| 24. Net underwriting gain or (loss) (Lines 8 minus 23) | XXX | (4,028,901) | 10,883,471 |
| 25. Net investment income earned (Exhibit of Net Investment Income, Line 17) | | 118,330,682 | 44,487,930 |
| 26. Net realized capital gains or (losses) less capital gains tax of $.....8,365,000 | | 39,668,479 | 14,942,052 |
| 27. Net investment gains or (losses) (Lines 25 plus 26) | 0 | 157,999,161 | 59,429,982 |
| 28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered $..........0) (amount charged off $..........0)] | | | 361,067 |
| 29. Aggregate write-ins for other income or expenses | 0 | (312,917) | (19,659,439) |
| 30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29) | XXX | 153,657,343 | 51,015,081 |
| 31. Federal and foreign income taxes incurred | XXX | 26,181,593 | 7,926,000 |
| 32. Net income (loss) (Lines 30 minus 31) | XXX | 127,475,750 | 43,089,081 |

## DETAILS OF WRITE-INS

| | | | |
|---|---|---|---|
| 0601. | XXX | | |
| 0602. | XXX | | |
| 0603. | XXX | | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | XXX | 0 | 0 |
| 0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above) | XXX | 0 | 0 |
| 0701. | XXX | | |
| 0702. | XXX | | |
| 0703. | XXX | | |
| 0798. Summary of remaining write-ins for Line 7 from overflow page | XXX | 0 | 0 |
| 0799. Totals (Lines 0701 through 0703 plus 0798) (Line 7 above) | XXX | 0 | 0 |
| 1401. | | | |
| 1402. | | | |
| 1403. | | | |
| 1498. Summary of remaining write-ins for Line 14 from overflow page | 0 | 0 | 0 |
| 1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above) | 0 | 0 | 0 |
| 2901. Other Expense | | (3,400) | (10,129,402) |
| 2902. Contribution Expense | | (309,517) | (9,530,037) |
| 2903. | | | |
| 2998. Summary of remaining write-ins for Line 29 from overflow page | 0 | 0 | 0 |
| 2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above) | 0 | (312,917) | (19,659,439) |

# STATEMENT OF REVENUE AND EXPENSES (Continued)

| CAPITAL AND SURPLUS ACCOUNT | 1<br>Current Year | 2<br>Prior Year |
|---|---|---|
| 33. Capital and surplus prior reporting period | 1,524,119,468 | 1,330,274,686 |
| 34. Net income or (loss) from Line 32 | 127,475,750 | 43,089,081 |
| 35. Change in valuation basis of aggregate policy and claim reserves | | |
| 36. Change in net unrealized capital gains and (losses) less capital gains tax of $.....(17,188,000) | (64,495,326) | 125,163,655 |
| 37. Change in net unrealized foreign exchange capital gain or (loss) | (4,247,953) | 9,667,787 |
| 38. Change in net deferred income tax | 6,948,000 | (28,992,000) |
| 39. Change in nonadmitted assets | (20,075,318) | 50,200,951 |
| 40. Change in unauthorized and certified reinsurance | | |
| 41. Change in treasury stock | | |
| 42. Change in surplus notes | | |
| 43. Cumulative effect of changes in accounting principles | | |
| 44. Capital changes: | | |
| 44.1 Paid in | | |
| 44.2 Transferred from surplus (Stock Dividend) | | |
| 44.3 Transferred to surplus | | |
| 45. Surplus adjustments: | | |
| 45.1 Paid in | | |
| 45.2 Transferred to capital (Stock Dividend) | | |
| 45.3 Transferred from capital | | |
| 46. Dividends to stockholders | | |
| 47. Aggregate write-ins for gains or (losses) in surplus | (2,420,638) | (5,284,692) |
| 48. Net change in capital and surplus (Lines 34 to 47) | 43,184,515 | 193,844,782 |
| 49. Capital and surplus end of reporting period (Line 33 plus 48) | 1,567,303,983 | 1,524,119,468 |

| DETAILS OF WRITE-INS | | |
|---|---|---|
| 4701. Change in Pension and Other Postemployment Benefit Obligation | (2,420,638) | (5,284,692) |
| 4702. | | |
| 4703. | | |
| 4798. Summary of remaining write-ins for Line 47 from overflow page | 0 | 0 |
| 4799. Totals (Lines 4701 through 4703 plus 4798) (Line 47 above) | (2,420,638) | (5,284,692) |

# CASH FLOW

| | 1<br>Current Year | 2<br>Prior Year |
|---|---|---|
| **CASH FROM OPERATIONS** | | |
| 1. Premiums collected net of reinsurance | 2,635,769,496 | 2,644,690,156 |
| 2. Net investment income | 61,681,219 | 51,319,328 |
| 3. Miscellaneous income | | |
| 4. Total (Lines 1 through 3) | 2,697,450,715 | 2,696,009,484 |
| 5. Benefit and loss related payments | 2,256,745,582 | 2,291,517,063 |
| 6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts | | |
| 7. Commissions, expenses paid and aggregate write-ins for deductions | 378,169,948 | 335,797,483 |
| 8. Dividends paid to policyholders | | |
| 9. Federal and foreign income taxes paid (recovered) net of $.....8,365,000 tax on capital gains (losses) | 50,628,334 | 21,989,866 |
| 10. Total (Lines 5 through 9) | 2,685,543,864 | 2,649,304,412 |
| 11. Net cash from operations (Line 4 minus Line 10) | 11,906,851 | 46,705,072 |
| **CASH FROM INVESTMENTS** | | |
| 12. Proceeds from investments sold, matured or repaid: | | |
| 12.1 Bonds | 658,359,628 | 250,160,044 |
| 12.2 Stocks | 285,307,473 | 81,691,828 |
| 12.3 Mortgage loans | | |
| 12.4 Real estate | | |
| 12.5 Other invested assets | 2,106,373 | 276,001 |
| 12.6 Net gains or (losses) on cash, cash equivalents and short-term investments | (5,651) | (7,629) |
| 12.7 Miscellaneous proceeds | 6,797,389 | 1,848,699 |
| 12.8 Total investment proceeds (Lines 12.1 to 12.7) | 952,565,212 | 333,968,943 |
| 13. Cost of investments acquired (long-term only): | | |
| 13.1 Bonds | 653,856,979 | 380,118,703 |
| 13.2 Stocks | 279,737,483 | 88,879,464 |
| 13.3 Mortgage loans | | |
| 13.4 Real estate | 144,543 | (880,162) |
| 13.5 Other invested assets | 30,987,851 | 1,851,707 |
| 13.6 Miscellaneous applications | 1,953,929 | 66,647 |
| 13.7 Total investments acquired (Lines 13.1 to 13.6) | 966,680,785 | 470,036,359 |
| 14. Net increase (decrease) in contract loans and premium notes | | |
| 15. Net cash from investments (Line 12.8 minus Lines 13.7 minus Line 14) | (14,115,573) | (136,067,416) |
| **CASH FROM FINANCING AND MISCELLANEOUS SOURCES** | | |
| 16. Cash provided (applied): | | |
| 16.1 Surplus notes, capital notes | | |
| 16.2 Capital and paid in surplus, less treasury stock | | |
| 16.3 Borrowed funds | | |
| 16.4 Net deposits on deposit-type contracts and other insurance liabilities | | |
| 16.5 Dividends to stockholders | | |
| 16.6 Other cash provided (applied) | 17,536,336 | 133,399,853 |
| 17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6) | 17,536,336 | 133,399,853 |
| **RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS** | | |
| 18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17) | 15,327,614 | 44,037,509 |
| 19. Cash, cash equivalents and short-term investments: | | |
| 19.1 Beginning of year | 147,328,863 | 103,291,354 |
| 19.2 End of year (Line 18 plus Line 19.1) | 162,656,477 | 147,328,863 |

Note: Supplemental disclosures of cash flow information for non-cash transactions:

| | | |
|---|---|---|
| 20.0001 Noncash dividends from subsidiaries | 68,000,000 | |

# ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

| | 1<br>Total | 2<br>Comprehensive (Hospital and Medical) | 3<br>Medicare Supplement | 4<br>Dental Only | 5<br>Vision Only | 6<br>Federal Employees Health Benefits Plans | 7<br>Title XVIII Medicare | 8<br>Title XIX Medicaid | 9<br>Other Health | 10<br>Other Non-Health |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Net premium income | 2,615,762,137 | 1,658,744,809 | 420,740,050 | 27,763,435 | 915,225 | 242,891,867 | | | 264,706,751 | |
| 2. Change in unearned premium reserves and reserve for rate credit | 10,126,318 | (1,626,946) | 41,090 | | | 11,712,174 | | | | |
| 3. Fee-for-service (net of $..........0 medical expenses) | 0 | | | | | | | | | XXX |
| 4. Risk revenue | 0 | | | | | | | | | XXX |
| 5. Aggregate write-ins for other health care related revenues | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| 6. Aggregate write-ins for other non-health care related revenues | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | 0 |
| 7. Total revenues (Lines 1 to 6) | 2,625,888,455 | 1,657,117,863 | 420,781,140 | 27,763,435 | 915,225 | 254,604,041 | 0 | 0 | 264,706,751 | 0 |
| 8. Hospital/medical benefits | 1,490,321,649 | 918,467,738 | 273,804,523 | | | 136,785,031 | | | 161,264,357 | XXX |
| 9. Other professional services | 230,496,928 | 128,150,299 | 38,202,900 | 21,869,211 | 688,824 | 19,085,093 | | | 22,500,601 | XXX |
| 10. Outside referrals | 71,914,523 | 44,320,076 | 13,212,263 | | | 6,600,475 | | | 7,781,709 | XXX |
| 11. Emergency room and out-of-area | 88,081,354 | 54,283,505 | 16,182,462 | | | 8,084,302 | | | 9,531,085 | XXX |
| 12. Prescription drugs | 362,652,272 | 259,268,494 | 12,516 | | | 57,387,688 | | | 45,983,574 | XXX |
| 13. Aggregate write-ins for other hospital and medical | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| 14. Incentive pool, withhold adjustments and bonus amounts | 20,527,446 | 20,527,446 | | | | | | | | XXX |
| 15. Subtotal (Lines 8 to 14) | 2,263,994,172 | 1,425,017,558 | 341,414,664 | 21,869,211 | 688,824 | 227,942,589 | 0 | 0 | 247,061,326 | XXX |
| 16. Net reinsurance recoveries | 0 | | | | | | | | | XXX |
| 17. Total hospital and medical (Lines 15 minus 16) | 2,263,994,172 | 1,425,017,558 | 341,414,664 | 21,869,211 | 688,824 | 227,942,589 | 0 | 0 | 247,061,326 | XXX |
| 18. Non-health claims (net) | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 19. Claims adjustment expenses including $.....18,798,597 cost containment expenses | 91,852,920 | 21,625,116 | 13,405,160 | 1,362,992 | 99,342 | 18,018,640 | | | 37,341,670 | |
| 20. General administrative expenses | 274,070,264 | 182,377,875 | 62,603,941 | 3,485,745 | 43,597 | 6,206,940 | | | 18,554,678 | 797,488 |
| 21. Increase in reserves for accident and health contracts | 0 | | | | | | | | | XXX |
| 22. Increase in reserve for life contracts | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 23. Total underwriting deductions (Lines 17 to 22) | 2,629,917,356 | 1,629,020,549 | 417,423,765 | 26,717,948 | 831,763 | 252,168,169 | 0 | 0 | 302,957,674 | 797,488 |
| 24. Net underwriting gain or (loss) (Line 7 minus Line 23) | (4,028,901) | 28,097,314 | 3,357,375 | 1,045,487 | 83,462 | 2,435,872 | 0 | 0 | (38,250,923) | (797,488) |

## DETAILS OF WRITE-INS

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| 0501. | 0 | | | | | | | | | XXX |
| 0502. | 0 | | | | | | | | | XXX |
| 0503. | 0 | | | | | | | | | XXX |
| 0598. Summary of remaining write-ins for Line 5 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| 0599. Total (Lines 0501 through 0503 plus 0598) (Line 5 above) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| 0601. | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0602. | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0603. | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | 0 |
| 0699. Total (Lines 0601 through 0603 plus 0698) (Line 6 above) | 0 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX | 0 |
| 1301. | 0 | | | | | | | | | XXX |
| 1302. | 0 | | | | | | | | | XXX |
| 1303. | 0 | | | | | | | | | XXX |
| 1398. Summary of remaining write-ins for Line 13 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |
| 1399. Total (Lines 1301 through 1303 plus 1398) (Line 13 above) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | XXX |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 1 - PREMIUMS

| Line of Business | 1<br>Direct Business | 2<br>Reinsurance Assumed | 3<br>Reinsurance Ceded | 4<br>Net Premium Income (Cols. 1 + 2 - 3) |
|---|---|---|---|---|
| 1. Comprehensive (hospital and medical) | 1,658,744,809 | | | 1,658,744,809 |
| 2. Medicare supplement | 420,740,050 | | | 420,740,050 |
| 3. Dental only | 27,763,435 | | | 27,763,435 |
| 4. Vision only | 915,225 | | | 915,225 |
| 5. Federal employees health benefits plan | 242,891,867 | | | 242,891,867 |
| 6. Title XVIII - Medicare | | | | 0 |
| 7. Title XIX - Medicaid | | | | 0 |
| 8. Other health | 264,706,751 | | | 264,706,751 |
| 9. Health subtotal (Lines 1 through 8) | 2,615,762,137 | 0 | 0 | 2,615,762,137 |
| 10. Life | | | | 0 |
| 11. Property/casualty | | | | 0 |
| 12. Totals (Lines 9 to 11) | 2,615,762,137 | 0 | 0 | 2,615,762,137 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2 - CLAIMS INCURRED DURING THE YEAR

| | 1<br>Total | 2<br>Comprehensive (Hospital and Medical) | 3<br>Medicare Supplement | 4<br>Dental Only | 5<br>Vision Only | 6<br>Federal Employees Health Benefits Plan | 7<br>Title XVIII Medicare | 8<br>Title XIX Medicaid | 9<br>Other Health | 10<br>Other Non-Health |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Payments during the year: | | | | | | | | | | |
| 1.1 Direct | 2,237,723,883 | 1,409,142,091 | 341,311,772 | 21,576,009 | 683,979 | 223,137,024 | | | 241,873,008 | |
| 1.2 Reinsurance assumed | 0 | | | | | | | | | |
| 1.3 Reinsurance ceded | 1,701,770 | 1,701,770 | | | | | | | | |
| 1.4 Net | 2,236,022,113 | 1,407,440,321 | 341,311,772 | 21,576,009 | 683,979 | 223,137,024 | 0 | 0 | 241,873,008 | 0 |
| 2. Paid medical incentive pools and bonuses | 20,723,469 | 20,723,469 | | | | | | | | |
| 3. Claim liability December 31, current year from Part 2A: | | | | | | | | | | |
| 3.1 Direct | 350,292,672 | 226,562,100 | 67,220,196 | 1,499,703 | 20,641 | 30,217,253 | | | 24,772,779 | |
| 3.2 Reinsurance assumed | 0 | | | | | | | | | |
| 3.3 Reinsurance ceded | 0 | | | | | | | | | |
| 3.4 Net | 350,292,672 | 226,562,100 | 67,220,196 | 1,499,703 | 20,641 | 30,217,253 | 0 | 0 | 24,772,779 | 0 |
| 4. Claim reserve December 31, current year from Part 2D: | | | | | | | | | | |
| 4.1 Direct | 0 | | | | | | | | | |
| 4.2 Reinsurance assumed | 0 | | | | | | | | | |
| 4.3 Reinsurance ceded | 0 | | | | | | | | | |
| 4.4 Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5. Accrued medical incentive pools and bonuses, current year | 18,795,281 | 18,795,281 | | | | | | | | |
| 6. Net healthcare receivables (a) | (3,674,331) | (3,322,474) | 461,016 | | | 372,162 | | | (1,185,035) | |
| 7. Amounts recoverable from reinsurers December 31, current year | 50,085 | 50,085 | | | | | | | | |
| 8. Claim liability December 31, prior year from Part 2A: | | | | | | | | | | |
| 8.1 Direct | 348,224,160 | 234,536,553 | 66,656,288 | 1,206,501 | 15,796 | 25,039,526 | | | 20,769,496 | |
| 8.2 Reinsurance assumed | 0 | | | | | | | | | |
| 8.3 Reinsurance ceded | 0 | | | | | | | | | |
| 8.4 Net | 348,224,160 | 234,536,553 | 66,656,288 | 1,206,501 | 15,796 | 25,039,526 | 0 | 0 | 20,769,496 | 0 |
| 9. Claim reserve December 31, prior year from Part 2D: | | | | | | | | | | |
| 9.1 Direct | 0 | | | | | | | | | |
| 9.2 Reinsurance assumed | 0 | | | | | | | | | |
| 9.3 Reinsurance ceded | 0 | | | | | | | | | |
| 9.4 Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10. Accrued medical incentive pools and bonuses, prior year | 18,991,304 | 18,991,304 | | | | | | | | |
| 11. Amounts recoverable from reinsurers December 31, prior year | 1,751,855 | 1,751,855 | | | | | | | | |
| 12. Incurred benefits: | | | | | | | | | | |
| 12.1 Direct | 2,243,466,726 | 1,404,490,112 | 341,414,664 | 21,869,211 | 688,824 | 227,942,589 | 0 | 0 | 247,061,326 | 0 |
| 12.2 Reinsurance assumed | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12.3 Reinsurance ceded | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12.4 Net | 2,243,466,726 | 1,404,490,112 | 341,414,664 | 21,869,211 | 688,824 | 227,942,589 | 0 | 0 | 247,061,326 | 0 |
| 13. Incurred medical incentive pools and bonuses | 20,527,446 | 20,527,446 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(a) Excludes $..........0 loans or advances to providers not yet expensed.

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

| | 1<br>Total | 2<br>Comprehensive (Medical and Hospital) | 3<br>Medicare Supplement | 4<br>Dental Only | 5<br>Vision Only | 6<br>Federal Employees Health Benefits Plan | 7<br>Title XVIII Medicare | 8<br>Title XIX Medicaid | 9<br>Other Health | 10<br>Other Non-Health |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Reported in process of adjustment: | | | | | | | | | | |
| 1.1 Direct | 205,714,187 | 136,898,012 | 37,679,166 | 299,941 | 4,128 | 18,032,556 | | | 12,800,384 | |
| 1.2 Reinsurance assumed | 0 | | | | | | | | | |
| 1.3 Reinsurance ceded | 0 | | | | | | | | | |
| 1.4 Net | 205,714,187 | 136,898,012 | 37,679,166 | 299,941 | 4,128 | 18,032,556 | 0 | 0 | 12,800,384 | 0 |
| 2. Incurred but unreported: | | | | | | | | | | |
| 2.1 Direct | 144,578,485 | 89,664,088 | 29,541,030 | 1,199,762 | 16,513 | 12,184,697 | | | 11,972,395 | |
| 2.2 Reinsurance assumed | 0 | | | | | | | | | |
| 2.3 Reinsurance ceded | 0 | | | | | | | | | |
| 2.4 Net | 144,578,485 | 89,664,088 | 29,541,030 | 1,199,762 | 16,513 | 12,184,697 | 0 | 0 | 11,972,395 | 0 |
| 3. Amounts withheld from paid claims and capitations: | | | | | | | | | | |
| 3.1 Direct | 0 | | | | | | | | | |
| 3.2 Reinsurance assumed | 0 | | | | | | | | | |
| 3.3 Reinsurance ceded | 0 | | | | | | | | | |
| 3.4 Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4. Totals: | | | | | | | | | | |
| 4.1 Direct | 350,292,672 | 226,562,100 | 67,220,196 | 1,499,703 | 20,641 | 30,217,253 | 0 | 0 | 24,772,779 | 0 |
| 4.2 Reinsurance assumed | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4.3 Reinsurance ceded | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4.4 Net | 350,292,672 | 226,562,100 | 67,220,196 | 1,499,703 | 20,641 | 30,217,253 | 0 | 0 | 24,772,779 | 0 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

| | Claims Paid During the Year | | Claim Reserve and Claim Liability December 31 of Current Year | | 5 | 6 |
|---|---|---|---|---|---|---|
| Line of Business | 1<br>On Claims Incurred Prior to January 1 of Current Year | 2<br>On Claims Incurred During the Year | 3<br>On Claims Unpaid December 31 of Prior Year | 4<br>On Claims Incurred During the Year | Claims Incurred in Prior Years (Columns 1 + 3) | Estimated Claim Reserve and Claim Liability December 31 of Prior Year |
| 1. Comprehensive (hospital and medical) | 208,101,491 | 1,201,040,600 | 1,225,495 | 225,336,605 | 209,326,986 | 234,536,553 |
| 2. Medicare supplement | 57,874,769 | 283,437,003 | 84,802 | 67,135,394 | 57,959,571 | 66,656,288 |
| 3. Dental only | 1,091,390 | 20,484,619 | 7,320 | 1,492,383 | 1,098,710 | 1,206,501 |
| 4. Vision only | 15,692 | 668,287 | 104 | 20,537 | 15,796 | 15,796 |
| 5. Federal employees health benefits plan | 23,514,227 | 199,622,797 | 194,732 | 30,022,521 | 23,708,959 | 25,039,526 |
| 6. Title XVIII - Medicare | | | | | 0 | |
| 7. Title XIX - Medicaid | | | | | 0 | |
| 8. Other health | 17,465,639 | 224,407,369 | 100,826 | 24,671,953 | 17,566,465 | 20,769,496 |
| 9. Health subtotal (Lines 1 to 8) | 308,063,208 | 1,929,660,675 | 1,613,279 | 348,679,393 | 309,676,487 | 348,224,160 |
| 10. Healthcare receivables (a) | 8,669,481 | 52,620,686 | 568 | 2,983,148 | 8,670,049 | 67,948,214 |
| 11. Other non-health | | | | | 0 | |
| 12. Medical incentive pools and bonus amounts | 20,723,469 | | | 18,795,281 | 20,723,469 | 18,991,304 |
| 13. Totals (Lines 9 - 10 + 11 + 12) | 320,117,196 | 1,877,039,989 | 1,612,711 | 364,491,526 | 321,729,907 | 299,267,250 |

(a) Excludes $..........0 loans or advances to providers not yet expensed.

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 281,447 | 281,731 | 281,731 | 281,731 | 281,731 |
| 2. 2014 | 1,839,137 | 2,062,150 | 2,060,660 | 2,060,660 | 2,060,660 |
| 3. 2015 | XXX | 1,984,986 | 2,233,748 | 2,233,384 | 2,233,384 |
| 4. 2016 | XXX | XXX | 1,962,851 | 2,314,314 | 2,313,564 |
| 5. 2017 | XXX | XXX | XXX | 1,948,433 | 2,277,969 |
| 6. 2018 | XXX | XXX | XXX | XXX | 1,929,661 |

### SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 284,243 | 281,731 | 281,731 | 281,731 | 281,731 |
| 2. 2014 | 2,094,150 | 2,063,497 | 2,060,660 | 2,060,660 | 2,060,660 |
| 3. 2015 | XXX | 2,270,732 | 2,235,529 | 2,233,384 | 2,233,384 |
| 4. 2016 | XXX | XXX | 2,351,684 | 2,316,304 | 2,313,564 |
| 5. 2017 | XXX | XXX | XXX | 2,313,658 | 2,279,582 |
| 6. 2018 | XXX | XXX | XXX | XXX | 2,297,135 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expense | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. 2014 | 2,409,437 | 2,060,660 | 65,868 | 3.2 | 2,126,528 | 88.3 | | | 2,126,528 | 88.3 |
| 2. 2015 | 2,535,836 | 2,233,384 | 65,291 | 2.9 | 2,298,675 | 90.6 | | | 2,298,675 | 90.6 |
| 3. 2016 | 2,656,268 | 2,313,564 | 71,120 | 3.1 | 2,384,684 | 89.8 | | | 2,384,684 | 89.8 |
| 4. 2017 | 2,646,943 | 2,277,969 | 76,848 | 3.4 | 2,354,817 | 89.0 | 1,613 | 17 | 2,356,447 | 89.0 |
| 5. 2018 | 2,625,888 | 1,929,661 | 67,675 | 3.5 | 1,997,336 | 76.1 | 367,475 | 3,778 | 2,368,589 | 90.2 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

($000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 196,927 | 196,773 | 196,773 | 196,773 | 196,773 |
| 2. 2014 | 1,226,463 | 1,376,287 | 1,374,733 | 1,374,733 | 1,374,733 |
| 3. 2015 | XXX | 1,348,437 | 1,518,852 | 1,518,128 | 1,518,128 |
| 4. 2016 | XXX | XXX | 1,333,953 | 1,583,146 | 1,582,557 |
| 5. 2017 | XXX | XXX | XXX | 1,290,037 | 1,519,450 |
| 6. 2018 | XXX | XXX | XXX | XXX | 1,201,041 |

### SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 199,287 | 196,773 | 196,773 | 196,773 | 196,773 |
| 2. 2014 | 1,400,649 | 1,377,116 | 1,374,733 | 1,374,733 | 1,374,733 |
| 3. 2015 | XXX | 1,548,138 | 1,520,200 | 1,518,128 | 1,518,128 |
| 4. 2016 | XXX | XXX | 1,610,468 | 1,584,362 | 1,582,557 |
| 5. 2017 | XXX | XXX | XXX | 1,542,348 | 1,520,675 |
| 6. 2018 | XXX | XXX | XXX | XXX | 1,445,173 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. 2014 | 1,603,895 | 1,374,733 | 34,433 | 2.5 | 1,409,166 | 87.9 | | | 1,409,166 | 87.9 |
| 2. 2015 | 1,698,974 | 1,518,128 | 21,544 | 1.4 | 1,539,672 | 90.6 | | | 1,539,672 | 90.6 |
| 3. 2016 | 1,789,401 | 1,582,557 | 26,973 | 1.7 | 1,609,530 | 89.9 | | | 1,609,530 | 89.9 |
| 4. 2017 | 1,751,446 | 1,519,450 | 35,799 | 2.4 | 1,555,249 | 88.8 | 1,225 | 12 | 1,556,486 | 88.9 |
| 5. 2018 | 1,657,118 | 1,201,041 | 19,215 | 1.6 | 1,220,256 | 73.6 | 244,132 | 2,410 | 1,466,798 | 88.5 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

($000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid 1 2014 | 2 2015 | 3 2016 | 4 2017 | 5 2018 |
|---|---|---|---|---|---|
| 1. Prior | 48,805 | 48,978 | 48,978 | 48,978 | 48,978 |
| 2. 2014 | 231,721 | 274,327 | 274,495 | 274,495 | 274,495 |
| 3. 2015 | XXX | 241,831 | 287,788 | 288,224 | 288,224 |
| 4. 2016 | XXX | XXX | 248,159 | 307,356 | 307,244 |
| 5. 2017 | XXX | XXX | XXX | 268,987 | 326,974 |
| 6. 2018 | XXX | XXX | XXX | XXX | 283,437 |

### SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year 1 2014 | 2 2015 | 3 2016 | 4 2017 | 5 2018 |
|---|---|---|---|---|---|
| 1. Prior | 48,985 | 48,978 | 48,978 | 48,978 | 48,978 |
| 2. 2014 | 278,673 | 274,465 | 274,495 | 274,495 | 274,495 |
| 3. 2015 | XXX | 293,336 | 287,881 | 288,224 | 288,224 |
| 4. 2016 | XXX | XXX | 311,312 | 307,733 | 307,244 |
| 5. 2017 | XXX | XXX | XXX | 335,267 | 327,059 |
| 6. 2018 | XXX | XXX | XXX | XXX | 350,572 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. 2014 | 347,645 | 274,495 | 12,132 | 4.4 | 286,627 | 82.4 | | | 286,627 | 82.4 |
| 2. 2015 | 355,792 | 288,224 | 14,524 | 5.0 | 302,748 | 85.1 | | | 302,748 | 85.1 |
| 3. 2016 | 376,548 | 307,244 | 12,740 | 4.1 | 319,984 | 85.0 | | | 319,984 | 85.0 |
| 4. 2017 | 398,149 | 326,974 | 13,191 | 4.0 | 340,165 | 85.4 | 85 | 1 | 340,251 | 85.5 |
| 5. 2018 | 420,781 | 283,437 | 12,743 | 4.5 | 296,180 | 70.4 | 67,135 | 662 | 363,977 | 86.5 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

($000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - DENTAL ONLY

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 854 | 858 | 858 | 858 | 858 |
| 2. 2014 | 18,789 | 19,645 | 19,651 | 19,651 | 19,651 |
| 3. 2015 | XXX | 19,297 | 20,305 | 20,310 | 20,310 |
| 4. 2016 | XXX | XXX | 19,217 | 20,360 | 20,371 |
| 5. 2017 | XXX | XXX | XXX | 19,341 | 20,421 |
| 6. 2018 | XXX | XXX | XXX | XXX | 20,485 |

### SECTION B - INCURRED HEALTH CLAIMS - DENTAL ONLY

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 854 | 858 | 858 | 858 | 858 |
| 2. 2014 | 19,831 | 19,740 | 19,651 | 19,651 | 19,651 |
| 3. 2015 | XXX | 20,271 | 20,309 | 20,310 | 20,310 |
| 4. 2016 | XXX | XXX | 20,386 | 20,362 | 20,371 |
| 5. 2017 | XXX | XXX | XXX | 20,546 | 20,429 |
| 6. 2018 | XXX | XXX | XXX | XXX | 21,977 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - DENTAL ONLY

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. 2014 | 26,401 | 19,651 | 1,106 | 5.6 | 20,757 | 78.6 | | | 20,757 | 78.6 |
| 2. 2015 | 26,512 | 20,310 | 1,476 | 7.3 | 21,786 | 82.2 | | | 21,786 | 82.2 |
| 3. 2016 | 26,399 | 20,371 | 1,330 | 6.5 | 21,701 | 82.2 | | | 21,701 | 82.2 |
| 4. 2017 | 26,811 | 20,421 | 1,108 | 5.4 | 21,529 | 80.3 | 7 | | 21,536 | 80.3 |
| 5. 2018 | 27,763 | 20,485 | 1,348 | 6.6 | 21,833 | 78.6 | 1,492 | 15 | 23,340 | 84.1 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

($000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - VISION ONLY

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid 1 2014 | 2 2015 | 3 2016 | 4 2017 | 5 2018 |
|---|---|---|---|---|---|
| 1. Prior | 21 | 21 | 21 | 21 | 21 |
| 2. 2014 | 513 | 529 | 529 | 529 | 529 |
| 3. 2015 | XXX | 656 | 672 | 672 | 672 |
| 4. 2016 | XXX | XXX | 640 | 662 | 662 |
| 5. 2017 | XXX | XXX | XXX | 683 | 699 |
| 6. 2018 | XXX | XXX | XXX | XXX | 668 |

### SECTION B - INCURRED HEALTH CLAIMS - VISION ONLY

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year 1 2014 | 2 2015 | 3 2016 | 4 2017 | 5 2018 |
|---|---|---|---|---|---|
| 1. Prior | 21 | 21 | 21 | 21 | 21 |
| 2. 2014 | 530 | 530 | 529 | 529 | 529 |
| 3. 2015 | XXX | 671 | 672 | 672 | 672 |
| 4. 2016 | XXX | XXX | 662 | 662 | 662 |
| 5. 2017 | XXX | XXX | XXX | 699 | 699 |
| 6. 2018 | XXX | XXX | XXX | XXX | 689 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - VISION ONLY

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. 2014 | 666 | 529 | 41 | 7.8 | 570 | 85.6 | | | 570 | 85.6 |
| 2. 2015 | 743 | 672 | 91 | 13.5 | 763 | 102.7 | | | 763 | 102.7 |
| 3. 2016 | 797 | 662 | 96 | 14.5 | 758 | 95.1 | | | 758 | 95.1 |
| 4. 2017 | 877 | 699 | 31 | 4.4 | 730 | 83.2 | | | 730 | 83.2 |
| 5. 2018 | 915 | 668 | 99 | 14.8 | 767 | 83.8 | 21 | | 788 | 86.1 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

($000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 20,304 | 20,310 | 20,310 | 20,310 | 20,310 |
| 2. 2014 | 176,086 | 190,095 | 189,985 | 189,985 | 189,985 |
| 3. 2015 | XXX | 182,299 | 198,720 | 198,639 | 198,639 |
| 4. 2016 | XXX | XXX | 182,742 | 207,505 | 207,445 |
| 5. 2017 | XXX | XXX | XXX | 187,901 | 211,475 |
| 6. 2018 | XXX | XXX | XXX | XXX | 199,623 |

### SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 20,482 | 20,310 | 20,310 | 20,310 | 20,310 |
| 2. 2014 | 191,606 | 190,304 | 189,985 | 189,985 | 189,985 |
| 3. 2015 | XXX | 199,307 | 198,945 | 198,639 | 198,639 |
| 4. 2016 | XXX | XXX | 211,907 | 207,777 | 207,445 |
| 5. 2017 | XXX | XXX | XXX | 212,668 | 211,670 |
| 6. 2018 | XXX | XXX | XXX | XXX | 229,645 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. 2014 | 211,242 | 189,985 | 10,452 | 5.5 | 200,437 | 94.9 | | | 200,437 | 94.9 |
| 2. 2015 | 220,746 | 198,639 | 13,678 | 6.9 | 212,317 | 96.2 | | | 212,317 | 96.2 |
| 3. 2016 | 235,678 | 207,445 | 14,559 | 7.0 | 222,004 | 94.2 | | | 222,004 | 94.2 |
| 4. 2017 | 224,908 | 211,475 | 11,053 | 5.2 | 222,528 | 98.9 | 195 | 3 | 222,726 | 99.0 |
| 5. 2018 | 254,604 | 199,623 | 17,571 | 8.8 | 217,194 | 85.3 | 30,023 | 448 | 247,665 | 97.3 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

($000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 819 | 818 | 818 | 818 | 818 |
| 2. 2014 | | | | | |
| 3. 2015 | XXX | | | | |
| 4. 2016 | XXX | XXX | | | |
| 5. 2017 | XXX | XXX | XXX | | |
| 6. 2018 | XXX | XXX | XXX | XXX | |

### SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | 819 | 818 | 818 | 818 | 818 |
| 2. 2014 | | | | | |
| 3. 2015 | XXX | | | | |
| 4. 2016 | XXX | XXX | | | |
| 5. 2017 | XXX | XXX | XXX | | |
| 6. 2018 | XXX | XXX | XXX | XXX | |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. 2014 | 332 | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 2. 2015 | 1 | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 3. 2016 | | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 4. 2017 | | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 5. 2018 | | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

($000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

NONE

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | | | | | |
| 2. 2014 | | | | | |
| 3. 2015 | XXX | | | | |
| 4. 2016 | XXX | XXX | | | |
| 5. 2017 | XXX | XXX | XXX | | |
| 6. 2018 | XXX | XXX | XXX | XXX | |

### SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

NONE

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year | | | | |
|---|---|---|---|---|---|
| | 1<br>2014 | 2<br>2015 | 3<br>2016 | 4<br>2017 | 5<br>2018 |
| 1. Prior | | | | | |
| 2. 2014 | | | | | |
| 3. 2015 | XXX | | | | |
| 4. 2016 | XXX | XXX | | | |
| 5. 2017 | XXX | XXX | XXX | | |
| 6. 2018 | XXX | XXX | XXX | XXX | |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

NONE

| Years in Which Premiums were Earned and Claims were Incurred | 1<br>Premiums Earned | 2<br>Claim Payments | 3<br>Claim Adjustment Expense Payments | 4<br>Percent (Col. 3/2) | 5<br>Claim and Claim Adjustment Expense Payments (Col. 2+3) | 6<br>Percent (Col. 5/1) | 7<br>Claims Unpaid | 8<br>Unpaid Claim Adjustment Expenses | 9<br>Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10<br>Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. 2014 | | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 2. 2015 | | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 3. 2016 | | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 4. 2017 | | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |
| 5. 2018 | | 0 | | 0.0 | 0 | 0.0 | | | 0 | 0.0 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

($000 Omitted)

### SECTION A - PAID HEALTH CLAIMS - OTHER

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid 1 2014 | 2 2015 | 3 2016 | 4 2017 | 5 2018 |
|---|---|---|---|---|---|
| 1. Prior | 13,717 | 13,973 | 13,973 | 13,973 | 13,973 |
| 2. 2014 | 185,565 | 201,267 | 201,267 | 201,267 | 201,267 |
| 3. 2015 | XXX | 192,466 | 207,411 | 207,411 | 207,411 |
| 4. 2016 | XXX | XXX | 178,140 | 195,285 | 195,285 |
| 5. 2017 | XXX | XXX | XXX | 181,484 | 198,950 |
| 6. 2018 | XXX | XXX | XXX | XXX | 224,407 |

### SECTION B - INCURRED HEALTH CLAIMS - OTHER

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year 1 2014 | 2 2015 | 3 2016 | 4 2017 | 5 2018 |
|---|---|---|---|---|---|
| 1. Prior | 13,795 | 13,973 | 13,973 | 13,973 | 13,973 |
| 2. 2014 | 202,861 | 201,342 | 201,267 | 201,267 | 201,267 |
| 3. 2015 | XXX | 209,009 | 207,522 | 207,411 | 207,411 |
| 4. 2016 | XXX | XXX | 196,949 | 195,408 | 195,285 |
| 5. 2017 | XXX | XXX | XXX | 202,130 | 199,050 |
| 6. 2018 | XXX | XXX | XXX | XXX | 249,079 |

### SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

| Years in Which Premiums were Earned and Claims were Incurred | 1 Premiums Earned | 2 Claim Payments | 3 Claim Adjustment Expense Payments | 4 Percent (Col. 3/2) | 5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3) | 6 Percent (Col. 5/1) | 7 Claims Unpaid | 8 Unpaid Claim Adjustment Expenses | 9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8) | 10 Percent (Col. 9/1) |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. 2014 | 219,256 | 201,267 | 7,704 | 3.8 | 208,971 | 95.3 | | | 208,971 | 95.3 |
| 2. 2015 | 233,068 | 207,411 | 13,978 | 6.7 | 221,389 | 95.0 | | | 221,389 | 95.0 |
| 3. 2016 | 227,445 | 195,285 | 15,422 | 7.9 | 210,707 | 92.6 | | | 210,707 | 92.6 |
| 4. 2017 | 244,752 | 198,950 | 15,666 | 7.9 | 214,616 | 87.7 | 101 | 1 | 214,718 | 87.7 |
| 5. 2018 | 264,707 | 224,407 | 16,699 | 7.4 | 241,106 | 91.1 | 24,672 | 243 | 266,021 | 100.5 |

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

| | 1<br>Total | 2<br>Comprehensive (Hospital and Medical) | 3<br>Medicare Supplement | 4<br>Dental Only | 5<br>Vision Only | 6<br>Federal Employees Health Benefits Plan | 7<br>Title XVIII Medicare | 8<br>Title XIX Medicaid | 9<br>Other |
|---|---|---|---|---|---|---|---|---|---|
| 1. Unearned premium reserves | 651,792 | 651,792 | | | | | | | |
| 2. Additional policy reserves (a) | 0 | | | | | | | | |
| 3. Reserve for future contingent benefits | 0 | | | | | | | | |
| 4. Reserve for rate credits or experience rating refunds (including $..........0 for investment income) | 52,244,635 | 2,290,041 | | | | 49,954,594 | | | |
| 5. Aggregate write-ins for other policy reserves | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6. Totals (gross) | 52,896,427 | 2,941,833 | 0 | 0 | 0 | 49,954,594 | 0 | 0 | 0 |
| 7. Reinsurance ceded | 0 | | | | | | | | |
| 8. Totals (net) (Page 3, Line 4) | 52,896,427 | 2,941,833 | 0 | 0 | 0 | 49,954,594 | 0 | 0 | 0 |
| 9. Present value of amounts not yet due on claims | 0 | | | | | | | | |
| 10. Reserve for future contingent benefits | 0 | | | | | | | | |
| 11. Aggregate write-ins for other claim reserves | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 12. Totals (gross) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13. Reinsurance ceded | 0 | | | | | | | | |
| 14. Totals (net) (Page 3, Line 7) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

### DETAILS OF WRITE-INS

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|---|---|---|---|---|---|---|---|---|---|
| 0501. | 0 | | | | | | | | |
| 0502. | 0 | | | | | | | | |
| 0503. | 0 | | | | | | | | |
| 0598. Summary of remaining write-ins for Line 5 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1101. | 0 | | | | | | | | |
| 1102. | 0 | | | | | | | | |
| 1103. | 0 | | | | | | | | |
| 1198. Summary of remaining write-ins for Line 11 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

(a) Includes $..........0 premium deficiency reserve.

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 3 - ANALYSIS OF EXPENSES

| | Claim Adjustment Expenses 1 Cost Containment Expenses | Claim Adjustment Expenses 2 Other Claim Adjustment Expenses | 3 General Administrative Expenses | 4 Investment Expenses | 5 Total |
|---|---|---|---|---|---|
| 1. Rent ($.....13,475,025 for occupancy of own building) | 157,659 | 736,359 | 15,209,182 | | 16,103,200 |
| 2. Salaries, wages and other benefits | 12,159,895 | 34,622,457 | 104,611,667 | | 151,394,019 |
| 3. Commissions (less $..........0 ceded plus $..........0 assumed) | | | 67,438,197 | | 67,438,197 |
| 4. Legal fees and expenses | | | 2,855,979 | | 2,855,979 |
| 5. Certifications and accreditation fees | | | | | 0 |
| 6. Auditing, actuarial and other consulting services | | (5) | 844,225 | | 844,220 |
| 7. Traveling expenses | 69,288 | 70,522 | 1,552,755 | | 1,692,565 |
| 8. Marketing and advertising | 104,259 | 122,731 | 3,295,870 | | 3,522,860 |
| 9. Postage, express and telephone | 627,038 | 3,349,661 | 4,525,972 | | 8,502,671 |
| 10. Printing and office supplies | 471,029 | 633,170 | 2,386,551 | | 3,490,750 |
| 11. Occupancy, depreciation and amortization | 478,639 | 1,628,140 | (2,379,800) | | (273,021) |
| 12. Equipment | 7,333 | 102,148 | 235,031 | | 344,512 |
| 13. Cost or depreciation of EDP equipment and software | 1,911,297 | 2,620,653 | 17,840,054 | | 22,372,004 |
| 14. Outsourced services including EDP, claims, and other services | 12,258,288 | 40,242,660 | 57,355,107 | | 109,856,055 |
| 15. Boards, bureaus and association fees | 4,127 | 2,648 | 1,896,557 | | 1,903,332 |
| 16. Insurance, except on real estate | 56,972 | 192,217 | 949,324 | | 1,198,513 |
| 17. Collection and bank service charges | | | 827 | | 827 |
| 18. Group service and administration fees | 6,996,015 | 10,209,932 | | | 17,205,947 |
| 19. Reimbursements by uninsured plans | (22,247,498) | (29,139,046) | (73,485,813) | | (124,872,357) |
| 20. Reimbursements from fiscal intermediaries | | | | | 0 |
| 21. Real estate expenses | 29,146 | 108,672 | 299,937 | | 437,755 |
| 22. Real estate taxes | 218,529 | 719,899 | 2,405,325 | | 3,343,753 |
| 23. Taxes, licenses and fees: | | | | | |
| 23.1 State and local insurance taxes | | | 20,007 | | 20,007 |
| 23.2 State premium taxes | | | 11,610,228 | | 11,610,228 |
| 23.3 Regulatory authority licenses and fees | | | 981,017 | | 981,017 |
| 23.4 Payroll taxes | 628,727 | 1,761,351 | 4,643,358 | | 7,033,436 |
| 23.5 Other (excluding federal income and real estate taxes) | | | 49,010,791 | | 49,010,791 |
| 24. Investment expenses not included elsewhere | | | | 5,430,044 | 5,430,044 |
| 25. Aggregate write-ins for expenses | 4,867,854 | 5,070,154 | (32,084) | 0 | 9,905,924 |
| 26. Total expenses incurred (Lines 1 to 25) | 18,798,597 | 73,054,323 | 274,070,264 | 5,430,044 | (a)......371,353,228 |
| 27. Less expenses unpaid December 31, current year | 776,644 | 3,018,162 | 205,298,196 | 940,497 | 210,033,499 |
| 28. Add expenses unpaid December 31, prior year | 812,995 | 3,192,081 | 197,086,294 | 1,133,467 | 202,224,837 |
| 29. Amounts receivable relating to uninsured plans, prior year | | | 88,271,839 | | 88,271,839 |
| 30. Amounts receivable relating to uninsured plans, current year | | | 96,651,964 | | 96,651,964 |
| 31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30) | 18,834,948 | 73,228,242 | 274,238,487 | 5,623,014 | 371,924,691 |

### DETAILS OF WRITE-INS

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| 2501. BlueCard Home Access Fees | 4,867,854 | 3,250,214 | | | 8,118,068 |
| 2502. Miscellaneous Expenses and Reimbursements | | 1,819,940 | (32,084) | | 1,787,856 |
| 2503. | | | | | 0 |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | 0 | 0 | 0 | 0 | 0 |
| 2599. TOTALS (Lines 2501 through 2503 plus 2598) (Line 25 above) | 4,867,854 | 5,070,154 | (32,084) | 0 | 9,905,924 |

(a) Includes management fees of $...........0 to affiliates and $..........0 to non-affiliates.

# EXHIBIT OF NET INVESTMENT INCOME

| | | 1<br>Collected<br>During Year | 2<br>Earned<br>During Year |
|---|---|---|---|
| 1. | U.S. government bonds | (a) 969,869 | 1,039,665 |
| 1.1 | Bonds exempt from U.S. tax | (a) | |
| 1.2 | Other bonds (unaffiliated) | (a) 34,620,274 | 34,378,433 |
| 1.3 | Bonds of affiliates | (a) | |
| 2.1 | Preferred stocks (unaffiliated) | (b) 15,346 | 15,346 |
| 2.11 | Preferred stocks of affiliates | (b) | |
| 2.2 | Common stocks (unaffiliated) | 10,188,899 | 10,509,411 |
| 2.21 | Common stocks of affiliates | 68,000,000 | 68,000,000 |
| 3. | Mortgage loans | (c) | |
| 4. | Real estate | (d) 13,475,025 | 13,475,025 |
| 5. | Contract loans | | |
| 6. | Cash, cash equivalents and short-term investments | (e) 3,926,631 | 3,952,722 |
| 7. | Derivative instruments | (f) 40,182 | 40,182 |
| 8. | Other invested assets | 118,038 | 134,243 |
| 9. | Aggregate write-ins for investment income | 613,355 | 613,355 |
| 10. | Total gross investment income | 131,967,619 | 132,158,383 |
| 11. | Investment expenses | | (g) 5,430,044 |
| 12. | Investment taxes, licenses and fees, excluding federal income taxes | | (g) |
| 13. | Interest expense | | (h) 114,687 |
| 14. | Depreciation on real estate and other invested assets | | (i) 7,150,092 |
| 15. | Aggregate write-ins for deductions from investment income | | 1,132,878 |
| 16. | Total deductions (Lines 11 through 15) | | 13,827,701 |
| 17. | Net investment income (Line 10 minus Line 16) | | 118,330,682 |
| | **DETAILS OF WRITE-INS** | | |
| 0901. | Miscellaneous Investment Income | 517,277 | 517,277 |
| 0902. | Securities Lending | 96,078 | 96,078 |
| 0903. | | | |
| 0998. | Summary of remaining write-ins for Line 9 from overflow page | 0 | 0 |
| 0999. | Totals (Lines 0901 through 0903 plus 0998) (Line 9 above) | 613,355 | 613,355 |
| 1501. | Other Investment Expenses | | 1,132,878 |
| 1502. | | | |
| 1503. | | | |
| 1598. | Summary of remaining write-ins for Line 15 from overflow page | | 0 |
| 1599. | Totals (Lines 1501 through 1503 plus 1598) (Line 15 above) | | 1,132,878 |

(a) Includes $.....7,723,043 accrual of discount less $.....12,183,783 amortization of premium and less $.....2,284,430 paid for accrued interest on purchases.
(b) Includes $..........0 accrual of discount less $..........0 amortization of premium and less $..........0 paid for accrued dividends on purchases.
(c) Includes $..........0 accrual of discount less $..........0 amortization of premium and less $..........0 paid for accrued interest on purchases.
(d) Includes $.....13,475,025 for company's occupancy of its own buildings; and excludes $..........0 interest on encumbrances.
(e) Includes $.....140,527 accrual of discount less $..........0 amortization of premium and less $.....23,026 paid for accrued interest on purchases.
(f) Includes $..........0 accrual of discount less $..........0 amortization of premium.
(g) Includes $..........0 investment expenses and $..........0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes $..........0 interest on surplus notes and $..........0 interest on capital notes.
(i) Includes $.....7,150,092 depreciation on real estate and $..........0 depreciation on other invested assets.

# EXHIBIT OF CAPITAL GAINS (LOSSES)

| | | 1<br>Realized Gain (Loss) on Sales or Maturity | 2<br>Other Realized Adjustments | 3<br>Total Realized Capital Gain (Loss) (Columns 1 + 2) | 4<br>Change in Unrealized Capital Gain (Loss) | 5<br>Change in Unrealized Foreign Exchange Capital Gain (Loss) |
|---|---|---|---|---|---|---|
| 1. | U.S. government bonds | (56,827) | | (56,827) | (153,097) | |
| 1.1 | Bonds exempt from U.S. tax | | | 0 | | |
| 1.2 | Other bonds (unaffiliated) | (3,877,449) | (1,271,072) | (5,148,520) | (1,064,391) | |
| 1.3 | Bonds of affiliates | | | 0 | | |
| 2.1 | Preferred stocks (unaffiliated) | 2,928,038 | (2,566) | 2,925,472 | (256,251) | (73,869) |
| 2.11 | Preferred stocks of affiliates | | | 0 | | |
| 2.2 | Common stocks (unaffiliated) | 51,223,581 | (607,279) | 50,616,302 | (76,065,469) | (4,140,620) |
| 2.21 | Common stocks of affiliates | | | 0 | (4,391,064) | |
| 3. | Mortgage loans | | | 0 | | |
| 4. | Real estate | | | 0 | | |
| 5. | Contract loans | | | 0 | | |
| 6. | Cash, cash equivalents and short-term investments | (5,651) | (81,423) | (87,074) | | |
| 7. | Derivative instruments | | | 0 | | |
| 8. | Other invested assets | (15,874) | (200,000) | (215,874) | 246,945 | |
| 9. | Aggregate write-ins for capital gains (losses) | 0 | 0 | 0 | 0 | (33,464) |
| 10. | Total capital gains (losses) | 50,195,818 | (2,162,339) | 48,033,479 | (81,683,327) | (4,247,953) |
| | **DETAILS OF WRITE-INS** | | | | | |
| 0901. | Foreign Currency Unrealized Gain / (Loss) | | | 0 | | (33,464) |
| 0902. | | | | 0 | | |
| 0903. | | | | 0 | | |
| 0998. | Summary of remaining write-ins for Line 9 from overflow page | 0 | 0 | 0 | 0 | 0 |
| 0999. | Totals (Lines 0901 through 0903 plus 0998) (Line 9 above) | 0 | 0 | 0 | 0 | (33,464) |

# EXHIBIT OF NONADMITTED ASSETS

| | 1<br>Current Year<br>Total<br>Nonadmitted Assets | 2<br>Prior Year<br>Total<br>Nonadmitted Assets | 3<br>Change in Total<br>Nonadmitted Assets<br>(Col. 2 - Col. 1) |
|---|---|---|---|
| 1. Bonds (Schedule D) | | | 0 |
| 2. Stocks (Schedule D): | | | |
| 2.1 Preferred stocks | 859,760 | 979,760 | 120,000 |
| 2.2 Common stocks | 17,157,390 | 15,015,739 | (2,141,651) |
| 3. Mortgage loans on real estate (Schedule B): | | | |
| 3.1 First liens | | | 0 |
| 3.2 Other than first liens | | | 0 |
| 4. Real estate (Schedule A): | | | |
| 4.1 Properties occupied by the company | | | 0 |
| 4.2 Properties held for the production of income | | | 0 |
| 4.3 Properties held for sale | | | 0 |
| 5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA) | | | 0 |
| 6. Contract loans | | | 0 |
| 7. Derivatives (Schedule DB) | | | 0 |
| 8. Other invested assets (Schedule BA) | 7,266,640 | 6,608,557 | (658,083) |
| 9. Receivables for securities | | | 0 |
| 10. Securities lending reinvested collateral assets (Schedule DL) | | | 0 |
| 11. Aggregate write-ins for invested assets | 0 | 0 | 0 |
| 12. Subtotals, cash and invested assets (Lines 1 to 11) | 25,283,790 | 22,604,056 | (2,679,734) |
| 13. Title plants (for Title insurers only) | | | 0 |
| 14. Investment income due and accrued | 43,212 | 31,500 | (11,712) |
| 15. Premiums and considerations: | | | |
| 15.1 Uncollected premiums and agents' balances in the course of collection | | 154,459 | 154,459 |
| 15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due | | | 0 |
| 15.3 Accrued retrospective premiums and contracts subject to redetermination | | | 0 |
| 16. Reinsurance: | | | |
| 16.1 Amounts recoverable from reinsurers | 50,085 | 1,751,855 | 1,701,770 |
| 16.2 Funds held by or deposited with reinsured companies | | | 0 |
| 16.3 Other amounts receivable under reinsurance contracts | | | 0 |
| 17. Amounts receivable relating to uninsured plans | 936,035 | 87,725 | (848,310) |
| 18.1 Current federal and foreign income tax recoverable and interest thereon | | | 0 |
| 18.2 Net deferred tax asset | 8,151,000 | | (8,151,000) |
| 19. Guaranty funds receivable or on deposit | | | 0 |
| 20. Electronic data processing equipment and software | 257,447 | 1,425,755 | 1,168,308 |
| 21. Furniture and equipment, including health care delivery assets | 15,834,834 | 18,191,868 | 2,357,034 |
| 22. Net adjustment in assets and liabilities due to foreign exchange rates | | | 0 |
| 23. Receivables from parent, subsidiaries and affiliates | 3,230,269 | 3,158,222 | (72,047) |
| 24. Health care and other amounts receivable | 10,725,138 | 13,930,229 | 3,205,091 |
| 25. Aggregate write-ins for other-than-invested assets | 87,512,746 | 70,613,569 | (16,899,177) |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25) | 152,024,556 | 131,949,238 | (20,075,318) |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts | | | 0 |
| 28. TOTALS (Lines 26 and 27) | 152,024,556 | 131,949,238 | (20,075,318) |

**DETAILS OF WRITE-INS**

| | | | |
|---|---|---|---|
| 1101. | | | 0 |
| 1102. | | | 0 |
| 1103. | | | 0 |
| 1198. Summary of remaining write-ins for Line 11 from overflow page | 0 | 0 | 0 |
| 1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above) | 0 | 0 | 0 |
| 2501. Prepaid Premium Tax Assets | 41,913,239 | 49,010,213 | 7,096,974 |
| 2502. Prepaid Pension Costs | 25,088,716 | | (25,088,716) |
| 2503. Other Prepaid Expenses | 18,598,332 | 19,593,585 | 995,253 |
| 2598. Summary of remaining write-ins for Line 25 from overflow page | 1,912,459 | 2,009,771 | 97,312 |
| 2599. Totals (Lines 2501 through 2503 plus 2598) (Line 25 above) | 87,512,746 | 70,613,569 | (16,899,177) |

# EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

| Source of Enrollment | Total Members at End of 1 Prior Year | 2 First Quarter | 3 Second Quarter | 4 Third Quarter | 5 Current Year | 6 Current Year Member Months |
|---|---|---|---|---|---|---|
| 1. Health maintenance organizations | | | | | | |
| 2. Provider service organizations | | | | | | |
| 3. Preferred provider organizations | 898,485 | 892,363 | 880,632 | 865,535 | 865,621 | 10,541,918 |
| 4. Point of service | | | | | | |
| 5. Indemnity only | 177,653 | 177,150 | 177,537 | 178,695 | 178,877 | 2,134,627 |
| 6. Aggregate write-ins for other lines of business | 178,712 | 176,402 | 177,242 | 177,902 | 179,288 | 2,127,885 |
| 7. Total | 1,254,850 | 1,245,915 | 1,235,411 | 1,222,132 | 1,223,786 | 14,804,430 |

**DETAILS OF WRITE-INS**

| | | | | | | |
|---|---|---|---|---|---|---|
| 0601. Dental | 81,650 | 81,488 | 82,383 | 82,906 | 84,432 | 988,851 |
| 0602. Medicare Part D | 88,658 | 86,300 | 86,280 | 86,446 | 86,298 | 1,036,132 |
| 0603. Vision | 8,404 | 8,614 | 8,579 | 8,550 | 8,558 | 102,902 |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 |
| 0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above) | 178,712 | 176,402 | 177,242 | 177,902 | 179,288 | 2,127,885 |

# NOTES TO FINANCIAL STATEMENTS

**Note 1 – Summary of Significant Accounting Policies and Going Concern**

A. Accounting Practices

The financial statements of Wellmark, Inc. (the Company) have been prepared in conformity with the accounting practices prescribed by the National Association of Insurance Commissioners (NAIC) and the State of Iowa.

The NAIC Accounting Practices and Procedures manual has been adopted as a component of prescribed or permitted practices by the State of Iowa. The Commissioner of Insurance has the right to permit specific practices that deviate from prescribed practices. The Company does not have any permitted practices.

| | SSAP # | F/S Page | F/S Line # | 2018 | 2017 |
|---|---|---|---|---|---|
| **NET INCOME** | | | | | |
| (1) Wellmark, Inc. state basis (Page 4, Line 32, Columns 2 & 3) | XXX | XXX | XXX | $ 127,475,750 | $ 43,089,081 |
| (2) State Prescribed Practices that are an increase/(decrease) from NAIC SAP | | | | | |
| | | | | $ | $ |
| (3) State Permitted Practices that are an increase/(decrease) from NAIC SAP | | | | | |
| | | | | $ | $ |
| (4) NAIC SAP (1 – 2 – 3 = 4) | XXX | XXX | XXX | $ 127,475,750 | $ 43,089,081 |
| **SURPLUS** | | | | | |
| (5) Wellmark, Inc. state basis (Page 3, Line 33, Columns 3 & 4) | XXX | XXX | XXX | $1,567,303,983 | $1,524,119,468 |
| (6) State Prescribed Practices that are an increase/(decrease) from NAIC SAP | | | | | |
| | | | | $ | $ |
| (7) State Permitted Practices that are an increase/(decrease) from NAIC SAP | | | | | |
| | | | | $ | $ |
| (8) NAIC SAP (5 – 6 – 7 = 8) | XXX | XXX | XXX | $1,567,303,983 | $1,524,119,468 |

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

Premiums on fully insured accident and health plans are billed in advance of their respective coverage periods. Receivables and income for such premiums are recorded at the effective date of the coverage period. Premiums received in advance and any unearned portion of premiums are recorded on the balance sheets as premiums received in advance and unearned premiums and reported as income when earned.

Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. Other costs, such as premium taxes and other underwriting expenses, are also charged to operations as incurred.

Real estate is carried at depreciated cost, less encumbrances. The fair value of real estate owned is determined by an internal analysis and evaluation of relevant market data.

In addition, the Company uses the following accounting policies:

(1) Basis for Short-Term Investments

Short-term investments that are NAIC designation 1 or 2 are reported at cost adjusted for amortization of premiums and accretion of discounts using the effective interest method. Short-term investments that are NAIC designation 3 through 6 are stated at the lower of amortized cost or fair value.

(2) Basis for Bonds and Amortization Schedule

Bonds that are NAIC designation 1 or 2 are reported at cost adjusted for amortization of premiums and accretion of discounts using the effective interest method. Bonds that are NAIC designation 3 through 6 are stated at the lower of amortized cost or fair value. When a decline in the fair value of a bond has been determined to be other than temporary, the Company evaluates whether the decline is interest or credit related. For those credit-related declines in value that are considered to be other than temporary, the bond's carrying value is reduced and a loss is realized on the Statement of Revenues and Expenses. Surplus notes that are rated by an NAIC credit rating provider and have an NAIC designation of 1 are reported at cost, adjusted for amortization of premiums and accretion of discounts using the effective interest method.

The Company does not own any mandatory convertible securities or SVO-Identified investments identified in SSAP No. 26R.

(3) Basis for Common Stocks

Unaffiliated common stocks are reported at fair value. When a decline in the fair value of an unaffiliated common stock is considered to be other than temporary, the carrying value of the stock is reduced to fair value and a loss is realized on the Statement of Revenues and Expenses. The Company has no restricted common stock.

(4) Basis for Preferred Stocks

Redeemable preferred stocks that are NAIC designation 1 or 2 are reported at book value. Perpetual preferred stocks that are NAIC designation 1 or 2 are reported at fair value. Redeemable and perpetual preferred stocks that are NAIC designation 3 through 6 are reported at the lower of book value or fair value.

# NOTES TO FINANCIAL STATEMENTS

(5) Basis for Mortgage Loans

Not Applicable

(6) Basis for Loan-Backed Securities and Adjustment Methodology

Loan-backed securities that are NAIC designation 1 or 2 are reported at cost adjusted for amortization of premiums and accretion of discounts using the effective interest method. For all securities except for interest only securities or securities where the yield had become negative, the amortization of premiums and accretion of discounts on loan-backed securities is adjusted annually using current estimated future cash flows, including any new prepayment assumptions, using the retrospective adjustment method. Interest only securities and securities where the yield had become negative are valued using the prospective method. Loan-backed securities are stated at the lower of amortized cost or fair value if they are NAIC designation 3 through 6.

(7) Accounting Policies for Investments in Subsidiaries, Controlled and Affiliated Entities

Common stock of the Company's insurance subsidiaries are recorded at the equity in the underlying statutory basis of their net assets. Common stock of the Company's non-insurance subsidiaries is recorded at their U.S. GAAP equity, but all ownership interests have been nonadmitted at December 31, 2018 as GAAP audited financial statements are not obtained for these subsidiaries.

(8) Accounting Policies for Investments in Joint Ventures, Partnerships and Limited Liability Entities

The Company has ownership interests in two affiliated joint ventures. The Company carries these interests based on the underlying statutory equity of the investees.

The Company also has minor ownership interests in limited liability companies. The Company carries these interests based on the underlying equity of the investee. If a GAAP audited statement is unavailable, the Company considers these investments non-admitted. All ownership interests in limited liability companies have been nonadmitted at December 31, 2018.

The Company has a minor ownership interest in a limited partnership. The Company carries this interest based on the underlying audited GAAP equity of the investee.

(9) Accounting Policies for Derivatives

On occasion, the Company receives stock rights through corporate actions by common stock issuers that are reported as derivatives. The Company does not enter into derivative transactions for hedging, income generation, or replication purposes. All derivatives are reported at fair value.

(10) Anticipated Investment Income Used in Premium Deficiency Calculation

The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with Statement of Statutory Accounting Principles (SSAP) 54, Individual and Group Accident and Health Contracts.

(11) Management's Policies and Methodologies for Estimating Liabilities for Losses and Loss/Claim Adjustment Expenses for A&H Contracts

The Company provides a liability for unpaid and unreported benefits, which represents the estimated ultimate cost of benefits incurred through the balance sheet date. The liability is estimated on the basis of past experience and accumulated statistical data. Subsequent actual benefit experience may differ from the estimated liability due to variances in estimated and actual utilization of health care services, the amount of charges and other factors. These estimates are continuously reviewed and, as adjustments become necessary, such adjustments are reflected in current operations.

(12) Changes in the Capitalization Policy and Predefined Thresholds from Prior Period

The Company has not modified its capitalization policy from the prior period.

(13) Method Used to Estimate Pharmaceutical Rebate Receivables

The Company estimates pharmaceutical rebates utilizing past experience and accumulated statistical data. These estimates are continuously reviewed, and any adjustments are reflected in current operations.

D. Going Concern

Management has evaluated the Company's ability to continue as a going concern and has concluded that there are no events or circumstances that raise any doubt about the Company's ability to continue as a going concern.

**Note 2 – Accounting Changes and Correction of Errors**

Not Applicable

**Note 3 – Business Combinations and Goodwill**

Not Applicable

**Note 4 – Discontinued Operations**

Not Applicable

**Note 5 – Investments**

A. Mortgage Loans, including Mezzanine Real Estate Loans

Not Applicable

B. Debt Restructuring

Not Applicable

# NOTES TO FINANCIAL STATEMENTS

C. Reverse Mortgages

Not Applicable

D. Loan-Backed Securities

(1) Description of Sources Used to Determine Prepayment Assumptions

For fixed-rate agency mortgage-backed securities, prepayment speeds are calculated utilizing Mortgage Industry Advisory Corporation (MIAC) Mortgage Industry Medians (MIMs). MIMs are derived from a semi-monthly dealer-consensus survey of long-term prepayment projections. For other mortgage-backed, loan-backed, and structured securities, prepayment assumptions are utilized from Moody's Analytics. Moody's applies a flat economic credit model and utilizes a vector of multiple monthly speeds as opposed to a single speed for more robust projections. In instances where Moody's projections are not available, data from Reuters is used, which utilizes the median prepayment speed from contributors' models.

(2) Other-Than-Temporary Impairments

There were no loan-backed securities with a current period recognized other-than-temporary impairment (OTTI) classified on the basis for the OTTI as "Intent to sell" or "Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis."

(3) Recognized OTTI Securities

Loan-backed securities with a current period recognized other-than-temporary impairment, currently held by the Company, as the present value of cash flows expected to be collected is less than the amortized cost basis of the securities follows as of December 31, 2018:

| CUSIP | Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI | Present Value of Projected Cash Flows | Recognized Other-Than-Temporary Impairment | Amortized Cost After Other-Than-Temporary Impairment | Fair Value at Time of OTTI | Date of Financial Statement Where Reported |
|---|---|---|---|---|---|---|
| 12624Q AS 2 | $ 1,392,886 | $ 1,229,260 | $ 163,627 | $ 1,229,260 | $ 961,668 | 12/31/2018 |
| 17311Y AC 7 | $ 1,450,433 | $ 1,303,421 | $ 147,011 | $ 1,303,421 | $ 1,303,421 | 12/01/2018 |
| 12591K AF 2 | $ 454,284 | $ 374,720 | $ 79,564 | $ 374,720 | $ 374,720 | 12/01/2018 |
| 36192B AA 5 | $ 670,908 | $ 564,218 | $ 106,690 | $ 564,218 | $ 490,424 | 12/31/2018 |
| 46640L AF 9 | $ 231,108 | $ 166,626 | $ 64,482 | $ 166,626 | $ 166,626 | 12/01/2018 |
| 46640J AT 4 | $ 164,350 | $ 82,488 | $ 81,862 | $ 82,488 | $ 82,488 | 12/01/2018 |
| 30261U AE 4 | $ 130,585 | $ 100,565 | $ 30,019 | $ 100,565 | $ 80,268 | 12/01/2018 |
| 92936Y AK 7 | $ 653,101 | $ 538,777 | $ 114,323 | $ 538,777 | $ 390,807 | 12/31/2018 |
| 200474 BD 5 | $ 916,499 | $ 743,057 | $ 173,442 | $ 743,057 | $ 662,825 | 12/01/2018 |
| 126281 BB 9 | $ 260,907 | $ 195,744 | $ 65,163 | $ 195,744 | $ 182,043 | 12/01/2018 |
| 36250H AG 8 | $ 776,122 | $ 589,894 | $ 186,228 | $ 589,894 | $ 528,984 | 12/01/2018 |
| 92939K AH 1 | $ 187,175 | $ 139,672 | $ 47,503 | $ 139,672 | $ 117,366 | 12/01/2018 |
| Total | | | $ 1,259,914 | | | |

(4) All impaired securities (fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (including securities with a recognized other-than-temporary impairment for non-interest related declines when a non-recognized interest related impairment remains):

| | | |
|---|---|---|
| a. The aggregate amount of unrealized losses: | 1. Less than 12 Months | $ 1,962,644 |
| | 2. 12 Months or Longer | $ 2,630,558 |
| b. The aggregate related fair value of securities with unrealized losses: | 1. Less than 12 Months | $ 108,916,800 |
| | 2. 12 Months or Longer | $ 72,005,223 |

(5) Information Investor Considered in Reaching Conclusion that Impairments are Not Other-Than-Temporary

The unrealized losses on the Company's investments in loan-backed securities were due to temporary changes in interest rates and market conditions. The contractual cash flows of the agency mortgage-backed investments are guaranteed by an agency of the U.S. government and the non-agency mortgage-backed and asset-backed securities include collateral which reduce the risk of loss. Based on cash flow projections, the Company believes it will recover the carrying value of these investments. Because the Company does not have the intent to sell these securities, nor is it more likely than not the Company will be required to sell these securities until a recovery of carrying value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired.

E. Dollar Repurchase Agreements and/or Securities Lending Transactions

(1) Policy for Requiring Collateral or Other Security

The Company participates in a securities lending program through its custodian bank, Bank of New York Mellon (BNYM). On the day the loan is delivered, BNYM obtains collateral equal in amount to 102% for securities of United States issuers and 105% for securities of non-United States issuers of the market value of the securities loaned plus accrued interest. The collateralization of all loans is then reviewed daily during the term of the loan. Cash received as collateral will be held and maintained by BNYM in one of its collective investment vehicles in accordance with investment guidelines provided in the securities lending agreement. Because the Company and BNYM are not permitted by contract to sell or repledge the collateral, the collateral is not recorded on the Company's statutory Balance Sheet.

(2) Disclose the Carrying Amount and Classification of Both Assets and Liabilities

Not Applicable

(3) Collateral Received

Not Applicable

# NOTES TO FINANCIAL STATEMENTS

(4) Aggregate Value of the Reinvested Collateral

Not Applicable

(5) Collateral Reinvestment

Not Applicable

(6) Detail on Collateral Transactions Not Permitted by Contract or Custom to Sell or Repledge

The Company accepts collateral through its securities lending program with BNYM that it is not permitted by contract or custom to sell or repledge. As of December 31, 2018, no securities were on loan and no collateral had been accepted.

(7) Collateral for Securities Lending Transactions that Extend Beyond One Year from the Reporting Date

Not Applicable

F. Repurchase Agreements Transactions Accounted for as Secured Borrowing

(1) Company Policies or Strategies for Repo Programs

The Company participates in a repurchase agreement with Bankers Trust (the Bank). The repurchase agreement is an obligation of the Bank to repay the Company the principal amount invested by the Company with interest upon demand by the Company. To secure the obligations under the repurchase agreement, the Bank grants to the Company an undivided security interest in certain United States government securities having a market value equal to at least 102% of the principal amount invested. The United States government securities comprising the collateral are at all times owned by the Bank; therefore, this collateral was not recorded on the Company's statutory Balance Sheet. Since the repurchase agreement matures upon demand, there is no asset-liability mismatch.

(2) Type of Repo Trades Used

| | 1<br>First Quarter | 2<br>Second Quarter | 3<br>Third Quarter | 4<br>Fourth Quarter |
|---|---|---|---|---|
| a. Bilateral (YES/NO) | YES | YES | YES | YES |
| b. Tri-Party (YES/NO | NO | NO | NO | NO |

(3) Original (Flow) and Residual Maturity

| | First Quarter | | | | Second Quarter | | | |
|---|---|---|---|---|---|---|---|---|
| | 1<br>Minimum | 2<br>Maximum | 3<br>Average Daily Balance | 4<br>Ending Balance | 5<br>Minimum | 6<br>Maximum | 7<br>Average Daily Balance | 8<br>Ending Balance |
| a. Open – No Maturity | $ 1,650,612 | $ 24,791,567 | $ 7,941,904 | $ 5,235,114 | $ 1,444,346 | $ 94,860,969 | $ 15,236,373 | $ 47,814,211 |
| b. Overnight | $ | $ | $ | $ | $ | $ | $ | $ |
| c. 2 Days to 1 Week | $ | $ | $ | $ | $ | $ | $ | $ |
| d. >1 Week to 1 Month | $ | $ | $ | $ | $ | $ | $ | $ |
| e. >1 Month to 3 Months | $ | $ | $ | $ | $ | $ | $ | $ |
| f. >3 Months to 1 Year | $ | $ | $ | $ | $ | $ | $ | $ |
| g. > 1 Year | $ | $ | $ | $ | $ | $ | $ | $ |

| | Third Quarter | | | | Fourth Quarter | | | |
|---|---|---|---|---|---|---|---|---|
| | 9<br>Minimum | 10<br>Maximum | 11<br>Average Daily Balance | 12<br>Ending Balance | 13<br>Minimum | 14<br>Maximum | 15<br>Average Daily Balance | 16<br>Ending Balance |
| a. Open – No Maturity | $ | $ 38,550,007 | $ 10,988,003 | $ 5,824,736 | $ | $ 38,987,020 | $ 9,313,716 | $ 38,735,563 |
| b. Overnight | $ | $ | $ | $ | $ | $ | $ | $ |
| c. 2 Days to 1 Week | $ | $ | $ | $ | $ | $ | $ | $ |
| d. >1 Week to 1 Month | $ | $ | $ | $ | $ | $ | $ | $ |
| e. >1 Month to 3 Months | $ | $ | $ | $ | $ | $ | $ | $ |
| f. >3 Months to 1 Year | $ | $ | $ | $ | $ | $ | $ | $ |
| g. > 1 Year | $ | $ | $ | $ | $ | $ | $ | $ |

(4) Counterparty, Jurisdiction and Fair Value (FV)

No securities were sold and/or acquired that resulted in default.

(5) Securities Sold Under Repo – Secured Borrowing

The Company deposits cash into an overnight sweep account. The Bank sweeps cash out of the Company's account and invests these funds into a Repurchase Agreement. The Company has not sold any securities as part of this agreement.

(6) Securities Sold Under Repo – Secured Borrowing by NAIC Designation

The Company deposits cash into an overnight sweep account. The Bank sweeps cash out of the Company's account and invests these funds into a Repurchase Agreement. The Company has not sold any securities as part of this agreement.

# NOTES TO FINANCIAL STATEMENTS

(7) Collateral Received – Secured Borrowing

| | First Quarter | | | | Second Quarter | | | |
|---|---|---|---|---|---|---|---|---|
| | 1<br>Minimum | 2<br>Maximum | 3<br>Average Daily Balance | 4<br>Ending Balance | 5<br>Minimum | 6<br>Maximum | 7<br>Average Daily Balance | 8<br>Ending Balance |
| a. Cash | $ | $ | $ | $ | $ | $ | $ | $ |
| b. Securities (FV) | $ 1,683,624 | $ 25,287,741 | $ 8,100,742 | $ 5,340,128 | $ 1,474,084 | $ 96,758,627 | $ 15,541,100 | $ 48,770,527 |

| | Third Quarter | | | | Fourth Quarter | | | |
|---|---|---|---|---|---|---|---|---|
| | 9<br>Minimum | 10<br>Maximum | 11<br>Average Daily Balance | 12<br>Ending Balance | 13<br>Minimum | 14<br>Maximum | 15<br>Average Daily Balance | 16<br>Ending Balance |
| a. Cash | $ | $ | $ | $ | $ | $ | $ | $ |
| b. Securities (FV) | $ | $ 39,321,196 | $ 11,207,763 | $ 5,942,473 | $ | $ 39,767,522 | $ 9,499,990 | $ 39,510,637 |

(8) Cash & Non-Cash Collateral Received – Secured Borrowing by NAIC Designation

| Ending Balance | 1<br>None | 2<br>NAIC 1 | 3<br>NAIC 2 | 4<br>NAIC 3 | 5<br>NAIC 4 | 6<br>NAIC 5 | 7<br>NAIC 6 | 8<br>Does Not Qualify as Admitted |
|---|---|---|---|---|---|---|---|---|
| a. Cash | $ | $ | $ | $ | $ | $ | $ | $ |
| b. Bonds- FV | | 39,510,637 | | | | | | |
| c. LB & SS- FV | | | | | | | | |
| d. Preferred Stock- FV | | | | | | | | |
| e. Common Stock | | | | | | | | |
| f. Mortgage Loans- FV | | | | | | | | |
| g. Real Estate- FV | | | | | | | | |
| h. Derivatives- FV | | | | | | | | |
| i. Other Invested Assets- FV | | | | | | | | |
| j. Total Collateral Assets- FV (Sum of a through i) | $ | $ 39,510,637 | $ | $ | $ | $ | $ | $ |

(9) Allocation of Aggregate Collateral by Remaining Contractual Maturity

| | Fair Value |
|---|---|
| a. Overnight and Continuous | $ 39,510,637 |
| b. 30 Days or Less | $ |
| c. 31 to 90 Days | $ |
| d. >90 Days | $ |

(10) Allocation of Aggregate Collateral Reinvested by Remaining Contractual Maturity

The Bank holds the collateral for the benefit of the Company during the term of the repurchase agreement. The Company does not have any authority to reinvest the collateral.

(11) Liability to Return Collateral – Secured Borrowing (Total)

The Bank holds the collateral for the benefit of the Company during the term of the repurchase agreement. The Bank retains all rights of ownership in the collateral unless or until a default under the repurchase agreement. As a result, no liability has been recognized on the Company's Balance Sheet.

G. Reverse Repurchase Agreements Transactions Accounted for as Secured Borrowing

Not Applicable

H. Repurchase Agreements Transactions Accounted for as a Sale

Not Applicable

I. Reverse Repurchase Agreements Transactions Accounted for as a Sale

Not Applicable

J. Real Estate

Not Applicable

K. Low-Income Housing Tax Credits (LIHTC)

Not Applicable

L. Restricted Assets

Not Applicable

# NOTES TO FINANCIAL STATEMENTS

M. Working Capital Finance Investments

Not Applicable

N. Offsetting and Netting of Assets and Liabilities

Not Applicable

O. Structured Notes

Not Applicable

P. 5GI Securities

Not Applicable

Q. Short Sales

Not Applicable

R. Prepayment Penalty and Acceleration Fees

| | | |
|---|---|---|
| (1) | Number of CUSIPs | 7 |
| (2) | Aggregate Amount of Investment Income | $ 115,448 |

**Note 6 – Joint Ventures, Partnerships and Limited Liability Companies**

A. Investments in Joint Ventures, Partnerships and Limited Liability Companies that Exceed 10% of Ownership

As of December 31, 2018, the Company has no investments in Joint Ventures, Partnerships or Limited Liability Companies that exceed 10% of its admitted assets.

B. Investments in Impaired Joint Ventures, Partnerships and Limited Liability Companies

The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships or Limited Liability Companies during 2018 or 2017.

**Note 7 – Investment Income**

A. The bases, by category of investment income, for excluding (nonadmitting) any investment income due and accrued:

All investment income due and accrued relating to the Company's minor ownership interests in limited liability companies has been nonadmitted, on the basis that the related ownership interests in limited liability companies have been nonadmitted.

B. The total amount excluded:

The total amount excluded at December 31, 2018 was $43,212.

**Note 8 – Derivative Instruments**

A. Market Risk, Credit Risk and Cash Requirements

On occasion, the Company receives stock rights through corporate actions by common stock issuers that are reported as derivatives. The Company does not purchase derivatives and has no future cash commitments related to derivatives held.

B. Objectives for Derivative User

On occasion, the Company receives stock rights through corporate actions by common stock issuers that are reported as derivatives. The Company does not enter into derivative transactions for hedging, income generation, or replication purposes.

C. Accounting Policies for Recognition and Measurement

All derivatives are reported at fair value with changes in fair value recorded in surplus. Realized gains and losses upon settlement or expiration of the derivatives are reported in net realized capital gains (losses) on the Statement of Revenue and Expenses.

D. Identification of Whether the Reporting Entity has Derivative Contracts with Financing Premiums

Not Applicable

E. Net Gain or Loss Recognized and Excluded From the Assessment of Hedge Effectiveness

Not Applicable

F. Net Gain or Loss Recognized from Derivatives that no Longer Qualify for Hedge Accounting

Not Applicable

G. Derivatives Accounted for as Cash Flow Hedges

Not Applicable

# NOTES TO FINANCIAL STATEMENTS

H. Total Premium Costs for Contracts

Not Applicable

**Note 9 – Income Taxes**

A. Deferred Tax Assets/(Liabilities)

1. Components of Net Deferred Tax Asset/(Liability)

| | 2018 | | | 2017 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1<br>Ordinary | 2<br>Capital | 3<br>(Col 1+2)<br>Total | 4<br>Ordinary | 5<br>Capital | 6<br>(Col 4+5)<br>Total | 7<br>(Col 1-4)<br>Ordinary | 8<br>(Col 2-5)<br>Capital | 9<br>(Col 7+8)<br>Total |
| a. Gross deferred tax assets | $ 43,949,000 | $ 1,711,000 | $ 45,660,000 | $ 47,985,000 | $ 3,409,000 | $ 51,394,000 | $ (4,036,000) | $ (1,698,000) | $ (5,734,000) |
| b. Statutory valuation allowance adjustment | | | | | | | | | |
| c. Adjusted gross deferred tax assets (1a-1b) | $ 43,949,000 | $ 1,711,000 | $ 45,660,000 | $ 47,985,000 | $ 3,409,000 | $ 51,394,000 | $ (4,036,000) | $ (1,698,000) | $ (5,734,000) |
| d. Deferred tax assets nonadmitted | 8,151,000 | | 8,151,000 | | | | 8,151,000 | | 8,151,000 |
| e. Subtotal net admitted deferred tax asset (1c-1d) | $ 35,798,000 | $ 1,711,000 | $ 37,509,000 | $ 47,985,000 | $ 3,409,000 | $ 51,394,000 | $(12,187,000) | $ (1,698,000) | (13,885,000) |
| f. Deferred tax liabilities | 419,000 | 9,991,000 | 10,410,000 | 13,109,000 | 27,815,000 | 40,924,000 | (12,690,000) | (17,824,000) | (30,514,000) |
| g. Net admitted deferred tax assets/(net deferred tax liability) (1e-1f) | $ 35,379,000 | $ (8,280,000) | $ 27,099,000 | $ 34,876,000 | $(24,406,000) | $ 10,470,000 | $ 503,000 | $ 16,126,000 | $ 16,629,000 |

2. Admission Calculation Components SSAP No. 101

| | 2018 | | | 2017 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1<br>Ordinary | 2<br>Capital | 3<br>(Col 1+2)<br>Total | 4<br>Ordinary | 5<br>Capital | 6<br>(Col 4+5)<br>Total | 7<br>(Col 1-4)<br>Ordinary | 8<br>(Col 2-5)<br>Capital | 9<br>(Col 7+8)<br>Total |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks | $ 25,093,000 | $ 898,000 | $ 25,991,000 | $ 24,985,000 | $ 1,790,000 | $ 26,775,000 | $ 108,000 | $ (892,000) | $ (784,000) |
| b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below) | 1,108,000 | | 1,108,000 | | | | 1,108,000 | | 1,108,000 |
| 1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date | 1,108,000 | | 1,108,000 | | | | 1,108,000 | | 1,108,000 |
| 2. Adjusted gross deferred tax assets allowed per limitation threshold | | | 230,612,000 | | | 226,378,000 | | | 4,234,000 |
| c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities | 9,597,000 | 813,000 | 10,410,000 | 23,000,000 | 1,619,000 | 24,619,000 | (13,403,000) | (806,000) | (14,209,000) |
| d. Deferred tax assets admitted as the result of application of SSAP 101. Total (2(a)+2(b)+2(c)) | $ 35,798,000 | $ 1,711,000 | $ 37,509,000 | $ 47,985,000 | $ 3,409,000 | $ 51,394,000 | $ (12,187,000) | $ (1,698,000) | $ (13,885,000) |

# NOTES TO FINANCIAL STATEMENTS

3. Other Admissibility Criteria

| | | 2018 | 2017 |
|---|---|---|---|
| a. | Ratio percentage used to determine recovery period and threshold limitation amount | 1,000.3% | 1,028.5% |
| b. | Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above | $ 1,540,204,983 | $ 1,513,649,468 |

4. Impact of Tax Planning Strategies

(a) Determination of adjusted gross deferred tax assets and net admitted deferred tax assets, by tax character as a percentage.

| | 2018 | | 2017 | | Change | |
|---|---|---|---|---|---|---|
| | 1<br>Ordinary | 2<br>Capital | 3<br>Ordinary | 4<br>Capital | 5<br>(Col. 1-3)<br>Ordinary | 6<br>(Col. 2-4)<br>Capital |
| 1. Adjusted gross DTAs amount from Note 9A1(c) | $ 43,949,000 | $ 1,711,000 | $ 47,985,000 | $ 3,409,000 | $ (4,036,000) | $ (1,698,000) |
| 2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies | % | % | % | % | % | % |
| 3. Net Admitted Adjusted Gross DTAs amount from Note 9A1(e) | $ 35,798,000 | $ 1,711,000 | $ 47,985,000 | $ 3,409,000 | $ (12,187,000) | $ (1,698,000) |
| 4 Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies | % | % | % | % | % | % |

(b) Does the company's tax planning strategies include the use of reinsurance? NO

B. Deferred Tax Liabilities Not Recognized

The Company does not have any deferred tax liabilities not recognized.

C. Current and Deferred Income Taxes

1. Current Income Tax

| | 1<br>2018 | 2<br>2017 | 3<br>(Col 1-2)<br>Change |
|---|---|---|---|
| a. Federal | $ 26,181,593 | $ 7,926,000 | $ 18,255,593 |
| b. Foreign | $ | $ | $ |
| c. Subtotal | $ 26,181,593 | $ 7,926,000 | $ 18,255,593 |
| d. Federal income tax on net capital gains | $ 8,365,000 | $ 4,163,000 | $ 4,202,000 |
| e. Utilization of capital loss carry-forwards | $ | $ | $ |
| f. Other | $ | $ | $ |
| g. Federal and Foreign income taxes incurred | $ 34,546,593 | $ 12,089,000 | $ 22,457,593 |

# NOTES TO FINANCIAL STATEMENTS

2. Deferred Tax Assets

| | 1<br>2018 | 2<br>2017 | 3<br>(Col 1-2)<br>Change |
|---|---|---|---|
| a. Ordinary: | | | |
| 1. Discounting of unpaid losses | $ 1,806,000 | $ 1,783,000 | $ 23,000 |
| 2. Unearned premium reserve | | | |
| 3. Policyholder reserves | | | |
| 4. Investments | | 82,000 | (82,000) |
| 5. Deferred acquisition costs | | | |
| 6. Policyholder dividends accrual | | | |
| 7. Fixed assets | 362,000 | 678,000 | (316,000) |
| 8. Compensation and benefits accrual | 15,734,000 | 12,979,000 | 2,755,000 |
| 9. Pension accrual | | | |
| 10. Receivables - nonadmitted | 3,147,000 | 4,014,000 | (867,000) |
| 11. Net operating loss carry-forward | | | |
| 12. Tax credit carry-forward | | | |
| 13. Other (items <=5% and >5% of total ordinary tax assets) | 22,900,000 | 28,449,000 | (5,549,000) |
| Other (items listed individually >5%of total ordinary tax assets) | | | |
| Intangible assets at transition date | 3,033,000 | 3,159,000 | (126,000) |
| Prepaid assets - nonadmitted | 10,791,000 | 12,194,000 | (1,403,000) |
| Invested assets - nonadmitted | 5,310,000 | 4,747,000 | 563,000 |
| Nondeductible guaranty fund assessment | | 4,307,000 | (4,307,000) |
| Nondeductible legal expenses | 3,360,000 | 3,620,000 | (260,000) |
| Other - nonadmitted | 402,000 | 422,000 | (20,000) |
| 99. Subtotal | 43,949,000 | 47,985,000 | (4,036,000) |
| b. Statutory valuation allowance adjustment | | | |
| c. Nonadmitted | 8,151,000 | | 8,151,000 |
| d. Admitted ordinary deferred tax assets (2a99-2b-2c) | 35,798,000 | 47,985,000 | (12,187,000) |
| e. Capital: | | | |
| 1. Investments | $ 1,711,000 | $ 3,409,000 | $ (1,698,000) |
| 2. Net capital loss carry-forward | | | |
| 3. Real estate | | | |
| 4. Other (items <=5% and >5% of total capital tax assets) | | | |
| Other (items listed individually >5% of total capital tax assets) | | | |
| | | | |
| 99. Subtotal | $ 1,711,000 | $ 3,409,000 | $ (1,698,000) |
| f. Statutory valuation allowance adjustment | | | |
| g. Nonadmitted | | | |
| h. Admitted capital deferred tax assets (2e99-2f-2g) | 1,711,000 | 3,409,000 | (1,698,000) |
| i. Admitted deferred tax assets (2d+2h) | $ 37,509,000 | $ 51,394,000 | $ (13,885,000) |

3. Deferred Tax Liabilities

| | 1<br>2018 | 2<br>2017 | 3<br>(Col 1-2)<br>Change |
|---|---|---|---|
| a. Ordinary: | | | |
| 1. Investments | $ 209,000 | $ | $ 209,000 |
| 2. Fixed assets | 210,000 | 391,000 | (181,000) |
| 3. Deferred and uncollected premium | | | |
| 4. Policyholder reserves | | | |
| 5. Other (items <=5% and >5% of total ordinary tax liabilities) | | 12,718,000 | (12,718,000) |
| Other (items listed individually >5% of total ordinary tax liabilities) | | | |
| Compensation and benefits accrual | | 8,919,000 | (8,919,000) |
| 99. Subtotal | 419,000 | 13,109,000 | (12,690,000) |
| b. Capital: | | | |
| 1. Investments | 8,640,000 | 25,902,000 | (17,262,000) |
| 2. Real estate | 1,351,000 | 1,913,000 | (562,000) |
| 3. Other (Items <=5% and >5% of total capital tax liabilities) | | | |
| Other (items listed individually >5% of total capital tax liabilities) | | | |
| | | | |
| 99. Subtotal | 9,991,000 | 27,815,000 | (17,824,000) |
| c. Deferred tax liabilities (3a99+3b99) | $ 10,410,000 | $ 40,924,000 | $ (30,514,000) |
| 4. Net Deferred Tax Assets (2i – 3c) | $ 27,099,000 | $ 10,470,000 | $ 16,629,000 |

# NOTES TO FINANCIAL STATEMENTS

5. The change in net deferred income taxes is comprised of the following (this analysis is exclusive of nonadmitted assets as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in unassigned surplus):

| | 12/31/2018 | | | 12/31/2017 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | (1) Ordinary | (2) Capital | (3) (Col 1+2) Total | (4) Ordinary | (5) Capital | (6) (Col 4+5) Total | (7) (Col 1-4) Ordinary | (8) (Col 2-5) Capital | (9) (Col 7+8) Total |
| Total deferred tax assets | $43,949,000 | $ 1,711,000 | $ 45,660,000 | $ 47,985,000 | $ 3,409,000 | $ 51,394,000 | $ (4,036,000) | $ (1,698,000) | $ (5,734,000) |
| Total deferred tax liabilities | (419,000) | (9,991,000) | (10,410,000) | (13,109,000) | (27,815,000) | (40,924,000) | 12,690,000 | 17,824,000 | 30,514,000 |
| Net deferred tax asset (liability) | 43,530,000 | (8,280,000) | 35,250,000 | 34,876,000 | (24,406,000) | 10,470,000 | 8,654,000 | 16,126,000 | 24,780,000 |
| Tax effect of unrealized gains | | | | | | | | | (17,188,000) |
| Tax effect of SSAP92/SSAP102 | | | | | | | | | (644,000) |
| Change in net deferred income tax | | | | | | | | | $ 6,948 ,000 |

On December 22, 2017, the U.S. federal government enacted a tax bill commonly known as the Tax Cuts and Jobs Act (Tax Reform Act). Among other things, the (Tax Reform Act) reduced the U.S. corporate tax rate to 21% for all corporations effective January 1, 2018. The Company remeasured all deferred tax assets and liabilities in accordance with SSAP 101 at December 31, 2017. The Company was not materially impacted by other provisions of the Tax Reform Act. At December 31, 2018, the Company has completed the accounting for all of the enactment-date income tax effects of the Tax Reform Act and did not record an adjustment to the provisional amount recorded as of December 31, 2017.

D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate

Among the more significant book to tax adjustments were the following:

| | 12/31/2018 |
|---|---|
| Provision computed at statutory rate | $ 34,025,000 |
| | |
| Change in nonadmitted assets | (2,504,000) |
| Tax exempt interest deduction | (983,000) |
| Dividends received deduction, net | (114,000) |
| 100% dividend received from affiliate | (14,280,000) |
| Other permanent differences | 524,000 |
| ACA health insurer fee | 8,999,000 |
| §162(m)(6) limitation | 2,899,000 |
| Credits generated in current year | (687,000) |
| Tax rate differential | (455,554) |
| Deferred only true-up | 194,000 |
| Adjustment of prior year's tax | (21,000) |
| Other | 2,147 |
| Totals | 27,598,593 |
| Federal and foreign income taxes incurred | 26,181,593 |
| Realized capital gains (losses) tax | 8,365,000 |
| Change in net deferred income taxes | (6,948,000) |
| Total statutory income taxes | $ 27,598,593 |

E. Operating Loss and Tax Credit Carryforwards and Protective Tax Deposits

1. At December 31, 2018, the Company did not have any unused operating loss carryforwards or tax credit carryforwards available to offset against future taxable income.

2. The amount of federal income taxes incurred in the current year and each preceding year that are available for recoupment in the event of future net losses:

| Year | Amounts |
|---|---|
| 2018 | $35,690,000 |
| 2017 | 11,473,000 |
| 2016 | 4,398,000 |
| TOTAL | $51,561,000 |

3. The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

F. Consolidated Federal Income Tax Return

1. The Company's federal income tax return is consolidated with the following entities:

   Wellmark of South Dakota, Inc.
   Wellmark Health Plan of Iowa, Inc.
   First Administrators, Inc.
   Midwest Benefit Consultants, Inc.
   Wellmark Holdings, Inc.

2. The method of allocation between the companies is subject to a written agreement, approved by the Board of Directors and the Iowa Insurance Division. Allocation is based upon separate return calculations with current credit for net losses.

   At December 31, 2018 the Company's tax related balance due from subsidiaries was $24,819,676.

# NOTES TO FINANCIAL STATEMENTS

G. Federal or Foreign Federal Income Tax Loss Contingencies:

At December 31, 2018, it is not reasonably possible to determine the Company's amount of tax loss contingencies that will significantly increase or decrease within twelve months of the reporting date.

H. Repatriation Transition Tax (RTT) - RTT owed under the TCJA

Not Applicable

I. Alternative Minimum Tax (AMT Credit)

The Company recognized no AMT credit as a current year recoverable or a deferred tax asset.

**Note 10 – Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties**

A, B, & C. Nature of the Relationships Involved and Transactions

The Company and Wellmark Health Plan of Iowa, Inc. (WHPI), a wholly owned subsidiary, have a management agreement whereby WHPI agrees to pay the Company for costs related to services outlined in the agreement. These costs are computed on a monthly basis. For 2018 and 2017, these costs were $81,008,664 and $84,280,687, respectively. The Company and WHPI also have an intercompany tax sharing arrangement (See Note 9). For 2018 and 2017, the tax related balance due from WHPI under this tax sharing arrangement was $11,103,294 and $14,568,324, respectively.

The Company and Wellmark of South Dakota, Inc. (WSD), a wholly owned subsidiary, have an intercorporate service agreement whereby WSD agrees to pay the Company for costs related to services outlined in the agreement. These costs are computed on a monthly basis. For 2018 and 2017, these costs were $66,077,823 and $71,155,530, respectively. The Company and WSD also have an intercompany tax sharing arrangement (See Note 9). For 2018 and 2017, the tax related balance due from WSD under this tax sharing arrangement was $13,549,520 and $7,126,575, respectively.

The Company has a revolving credit agreement with both Wellmark Synergy Health, Inc. (WSH) and Wellmark Value Health Plan, Inc. (WVHP), which gives them each line of credit financing in an amount up to $10,000,000. There were no draws on the credit line by either WSH or WVHP during 2018. There were no outstanding draws by either WSH or WVHP as of December 31, 2018 or 2017.

The Company received a dividend of $28,000,000 from WHPI in September 2018. The Company also received a dividend of $40,000,000 from WSD in December 2018.

D. Amounts Due From or To Related Parties

At December 31, 2018, the Company reported $36,131,163 as amounts due to subsidiaries and affiliates and $33,005 as amounts due from subsidiaries and affiliates. At December 31, 2017, the Company reported $46,319,055 as amounts due to subsidiaries and affiliates and $4,254,464 as amounts due from subsidiaries and affiliates. The terms of the agreements require these amounts to be settled within 30 days.

E. Guarantees or Undertakings

Not Applicable

F. Material Management or Service Contracts and Cost-Sharing Arrangements

The Company has an intercorporate services and investment and management agreement with some of its subsidiaries and affiliates to provide certain management and administrative services.

G. Nature of the Control Relationship

Not Applicable

H. Amount Deducted from the Value of Upstream Intermediate Entity or Ultimate Parent Owned

Not Applicable

I. Investments in SCA that Exceed 10% of Admitted Assets

The Company owns a 100% interest in WSD, whose carrying value exceeded 10% of the admitted assets of the Company in both 2018 and 2017. The Company carries WSD at its statutory equity, which was $283,051,803 and $291,113,382 as of December 31, 2018 and 2017, respectively. At December 31, 2018, WSD's statutory assets and liabilities were $472,745,060 and $189,693,257, respectively. At December 31, 2017, WSD's statutory assets and liabilities were $475,974,370 and $184,860,988, respectively. Statutory net income for WSD was $48,730,108 and $41,039,153 for the years ended December 31, 2018 and 2017, respectively.

J. Investments in Impaired SCAs

Not Applicable

K. Investment in Foreign Insurance Subsidiary

Not Applicable

L. Investment in Downstream Noninsurance Holding Company

Not Applicable

# NOTES TO FINANCIAL STATEMENTS

M. All SCA Investments

(1) Balance Sheet Value (Admitted and Nonadmitted) All SCAs (Except 8bi Entities)

| SCA Entity | Percentage of SCA Ownership | Gross Amount | Admitted Amount | Nonadmitted Amount |
|---|---|---|---|---|
| a. SSAP No. 97 8a Entities | | | | |
| | % | $ | $ | $ |
| Total SSAP No. 97 8a Entities | XXX | $ | $ | $ |
| b. SSAP No. 97 8b(ii) Entities | | | | |
| | % | $ | $ | $ |
| Total SSAP No. 97 8b(ii) Entities | XXX | $ | $ | $ |
| c. SSAP No. 97 8b(iii) Entities | | | | |
| Wellmark Holdings, Inc. | 100.0% | $ 44,703 | $ | $ 44,703 |
| First Administrators, Inc. | 100.0% | $ 3,460,698 | $ | $ 3,460,698 |
| Midwest Benefit Consultants, Inc. | 100.0% | $ 3,974,963 | $ | $ 3,974,963 |
| Total SSAP No. 97 8b(iii) Entities | XXX | $ 7,480,364 | $ | $ 7,480,364 |
| d. SSAP No. 97 8b(iv) Entities | | | | |
| | % | $ | $ | $ |
| Total SSAP No. 97 8b(iv) Entities | XXX | $ | $ | $ |
| e. Total SSAP No. 97 8b Entities (except 8b(i) entities) (b + c + d) | XXX | $ 7,480,364 | $ | $ 7,480,364 |
| f. Aggregate Total (a + e) | XXX | $ 7,480,364 | $ | $ 7,480,364 |

(2) NAIC Filing Response Information

| SCA Entity (Should be the same entities as shown in M(1) above) | Type of NAIC Filing* | Date of Filing to the NAIC | NAIC Valuation Amount | NAIC Response Received Y/N | NAIC Disallowed Entities Valuation Method Resubmission Required Y/N | Code** |
|---|---|---|---|---|---|---|
| a. SSAP No. 97 8a Entities | | | | | | |
| | | | $ | | | |
| Total SSAP No. 97 8a Entities | XXX | XXX | $ | XXX | XXX | XXX |
| b. SSAP No. 97 8b(ii) Entities | | | | | | |
| | | | $ | | | |
| Total SSAP No. 97 8b(ii) Entities | XXX | XXX | $ | XXX | XXX | XXX |
| c. SSAP No. 97 8b(iii) Entities | | | | | | |
| Wellmark Holdings, Inc. | S1 | 10/25/2016 | $ | Y | N | N/A |
| First Administrators, Inc. | S1 | 10/25/2016 | $ | Y | N | N/A |
| Midwest Benefit Consultants, Inc. | S1 | 10/25/2016 | $ | Y | N | N/A |
| Total SSAP No. 97 8b(iii) Entities | XXX | XXX | $ | XXX | XXX | XXX |
| d. SSAP No. 97 8b(iv) Entities | | | | | | |
| | | | $ | | | |
| Total SSAP No. 97 8b(iv) Entities | XXX | XXX | $ | XXX | XXX | XXX |
| e. Total SSAP No. 97 8b Entities (except 8b(i) entities) (b + c + d) | XXX | XXX | $ | XXX | XXX | XXX |
| f. Aggregate Total (a + e) | XXX | XXX | $ | XXX | XXX | XXX |

* S1 – Sub-1, S2 – Sub-2 or RDF – Resubmission of Disallowed Filing
** I – Immaterial or M – Material

The Company is exempt from a Sub-2 filing for its SSAP 97 8b(iii) subsidiaries because they are fully nonadmitted.

N. Investment in Insurance SCAs

Not Applicable

O. SCA Loss Tracking

Not Applicable

**Note 11 – Debt**

A. Debt Including Capital Notes

During 2018, the Company made amendments to change the available balance on some of its lines of credit. After these amendments, the total amount available to the Company under all lines of credit is $120,000,000. The Company did not draw on its lines of credit during 2018.

B. FHLB (Federal Home Loan Bank) Agreements

Not Applicable

# NOTES TO FINANCIAL STATEMENTS

**Note 12 – Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans**

A. Defined Benefit Plan

The Company sponsors a pension program covering substantially all employees of the Company and its subsidiaries. The pension program contains both a defined benefit and cash balance plan available to eligible employees depending on the date of hire. The defined benefit pension plan benefits are based on years of service and the employee's highest five consecutive years' compensation in the last ten years of service. Under the cash balance plan employees earn annual credits based on a percentage of salary which are accumulated in an account that earns interest annually. The pension plan assets are held in the Non-Contributory Retirement Program for Certain Employees of Wellmark, Inc. Trust (Trust) with Prudential Bank & Trust, F.S.B. as the trustee. The recordkeeping responsibilities are performed by Prudential Retirement Insurance and Annuity Company (Prudential). The funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 and the Pension Protection Act of 1996, plus additional amounts as determined to be appropriate from time to time.

The Company also sponsors a postretirement health care benefit program. The program has two separate benefit plan calculations available to employees depending on the date of hire. One plan contributes toward the cost of health care premiums based on years of service and is available to employees who retire from the Company who have at least ten years of service and have attained age 65 while in service to the Company. This plan also includes a life insurance benefit based on the employee's annual salary at retirement and is available to employees who retire from the Company who have at least five years of service and have attained age 55 while in service to the Company. The second plan option allows employees to accumulate annual credits in an account that earns interest annually and can be used to pay for health care premiums when the employee becomes Medicare eligible. The Company has not funded either the postretirement health care or life insurance plans, but intends to meet the obligations of the plans through general assets of the Company.

A summary of assets, obligations and assumptions of the Pension and Other Postretirement Benefit Plans are as follows at December 31, 2018 and 2017:

(1) Change in Benefit Obligation

| | Overfunded | | Underfunded | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| a. Pension Benefits | | | | |
| 1. Benefit obligation at beginning of year | $ 320,505,868 | $ | $ | $ 295,124,039 |
| 2. Service cost | 11,062,696 | | | 10,380,588 |
| 3. Interest cost | 11,795,259 | | | 12,537,613 |
| 4. Contribution by plan participants | | | | |
| 5. Actuarial (gain) loss | (21,415,072) | | | 29,708,950 |
| 6. Foreign currency exchange rate changes | | | | |
| 7. Benefits paid | 22,869,665 | | | 2,268,437 |
| 8. Plan amendments | | | | |
| 9. Business combinations, divestitures, curtailments, settlements and special termination benefits | | | | 24,976,885 |
| 10. Benefit obligation at end of year | $ 299,079,086 | $ | $ | $ 320,505,868 |
| | Overfunded | | Underfunded | |
| b. Postretirement Benefits | 2018 | 2017 | 2018 | 2017 |
| 1. Benefit obligation at beginning of year | $ | $ | $ 36,173,351 | $ 33,869,270 |
| 2. Service cost | | | 1,563,863 | 1,402,329 |
| 3. Interest cost | | | 1,301,655 | 1,368,386 |
| 4. Contribution by plan participants | | | | |
| 5. Actuarial (gain) loss | | | (3,109,194) | 694,478 |
| 6. Foreign currency exchange rate changes | | | | |
| 7. Benefits paid | | | 1,233,198 | 1,161,112 |
| 8. Plan amendments | | | | |
| 9. Business combinations, divestitures, curtailments, settlements and special termination benefits | | | | |
| 10. Benefit obligation at end of year | $ | $ | $ 34,696,477 | $ 36,173,351 |
| | Overfunded | | Underfunded | |
| c. Special or Contractual Benefits per SSAP No. 11 | 2018 | 2017 | 2018 | 2017 |
| 1. Benefit obligation at beginning of year | $ | $ | $ 8,440,445 | $ 8,995,188 |
| 2. Service cost | | | 21,188,428 | 17,798,153 |
| 3. Interest cost | | | | |
| 4. Contribution by plan participants | | | | |
| 5. Actuarial (gain) loss | | | | |
| 6. Foreign currency exchange rate changes | | | | |
| 7. Benefits paid | | | 20,278,339 | 18,352,896 |
| 8. Plan amendments | | | | |
| 9. Business combinations, divestitures, curtailments, settlements and special termination benefits | | | | |
| 10. Benefit obligation at end of year | $ | $ | $ 9,350,534 | $ 8,440,445 |

# NOTES TO FINANCIAL STATEMENTS

(2) Change in Plan Assets

| | | Pension Benefits | | Postretirement Benefits | | Special or Contractual Benefits per SSAP No. 11 | |
|---|---|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| a. | Fair value of plan assets at beginning of year | $ 302,978,428 | $ 286,134,011 | $ | $ | $ | $ |
| b. | Actual return on plan assets | (15,940,961) | 44,089,739 | | | | |
| c. | Foreign currency exchange rate changes | | | | | | |
| d. | Reporting entity contribution | 60,000,000 | | | | | |
| e. | Plan participants' contributions | | | | | | |
| f. | Benefits paid | 22,869,665 | 2,268,437 | | | | |
| g. | Business combinations, divestitures and settlements | | 24,976,885 | | | | |
| h. | Fair value of plan assets at end of year | $ 324,167,802 | $ 302,978,428 | $ | $ | $ | $ |

(3) Funded Status

| | | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| a. | Components | | | | |
| | 1. Prepaid benefit costs | $ 145,976,908 | $ 96,617,860 | $ | $ |
| | 2. Overfunded plans assets | $ (120,888,192) | $ (96,617,860) | $ | $ |
| | 3. Accrued benefit costs | $ | $ | $ 34,406,379 | $ 32,204,999 |
| | 4. Liability for pension benefits | $ | $ 17,527,440 | $ 290,098 | $ 3,968,352 |
| b. | Assets and liabilities recognized | | | | |
| | 1. Assets (nonadmitted) | $ 25,088,716 | $ | $ | $ |
| | 2. Liabilities recognized | $ | $ 17,527,440 | $ 34,696,477 | $ 36,173,351 |
| c. | Unrecognized liabilities | $ | $ | $ | $ |

(4) Components of Net Periodic Benefit Cost

| | | Pension Benefits | | Postretirement Benefits | | Special or Contractual Benefits per SSAP No. 11 | |
|---|---|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| a. | Service cost | $ 11,062,696 | $ 10,380,588 | $ 1,563,863 | $ 1,402,329 | $ 21,188,428 | $ 17,798,153 |
| b. | Interest cost | 11,795,259 | 12,537,613 | 1,301,655 | 1,368,386 | | |
| c. | Expected return on plan assets | (22,360,397) | (17,926,882) | | | | |
| d. | Transition asset or obligation | | | | | | |
| e. | Gains and losses | 9,942,007 | 11,931,176 | | | | |
| f. | Prior service cost or credit | 201,387 | 217,675 | 569,060 | 569,060 | | |
| g. | Gain or loss recognized due to a settlement curtailment | | 8,832,968 | | | | |
| h. | Total net periodic benefit cost | $ 10,640,952 | $ 25,973,138 | $ 3,434,578 | $ 3,339,775 | $ 21,188,428 | $ 17,798,153 |

(5) Amounts in Unassigned Funds (Surplus) Recognized as Components of Net Periodic Benefit Cost

| | | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| a. | Items not yet recognized as a component of net periodic cost – prior year | $ 114,145,300 | $ 131,581,026 | $ 3,968,352 | $ 3,842,934 |
| b. | Net transition asset or obligation recognized | | | | |
| c. | Net prior service cost or credit arising during the period | | | | |
| d. | Net prior service cost or credit recognized | (201,387) | (217,675) | (569,060) | (569,060) |
| e. | Net (gain) and loss arising during the period | 16,886,286 | 3,546,093 | (3,109,194) | 694,478 |
| f. | Net gain and (loss) recognized | (9,942,007) | (20,764,144) | | |
| g. | Items not yet recognized as a component of net periodic cost – current period | $ 120,888,192 | $ 114,145,300 | $ 290,098 | $ 3,968,352 |

(6) Amounts in Unassigned Funds (Surplus) Expected to be Recognized in the Next Fiscal Year as Components of Net Periodic Benefit Cost

| | | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| a. | Net transition asset or obligations | $ | $ | $ | $ |
| b. | Net prior service cost or credit | $ 102,473 | $ 201,387 | $ 569,060 | $ 569,060 |
| c. | Net recognized (gains) and losses | $ 10,612,684 | $ 9,376,578 | $ (420) | $ |

(7) Amounts in Unassigned Funds (Surplus) that have not yet been Recognized as Components of Net Periodic Benefit Cost

| | | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| a. | Net transition asset or obligations | $ | $ | $ | $ |
| b. | Net prior service cost or credit | $ 598,391 | $ 799,778 | $ 3,167,609 | $ 3,736,669 |
| c. | Net recognized (gains) and losses | $ 120,289,801 | $ 113,345,522 | $ (2,877,511) | $ 231,683 |

# NOTES TO FINANCIAL STATEMENTS

(8) Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost as of December 31

Pension Benefits

| | 2018 | 2017 |
|---|---|---|
| a. Weighted-average discount rate | 3.8% | 4.4% |
| b. Expected long-term rate of return on plan assets | 6.5% | 6.5% |
| c. Rate of compensation increase | 3.5 - 8.0% | 3.5 - 8.0% |
| Weighted-average assumptions used to determine projected benefit obligations as of December 31 | | |
| d. Weighted-average discount rate | 4.5% | 3.8% |
| e. Rate of compensation increase | 3.5 - 8.0% | 3.5 - 8.0% |

Postretirement Benefits

| | 2018 | 2017 |
|---|---|---|
| a. Weighted-average discount rate | 3.7% | 4.2% |
| b. Expected long-term rate of return on plan assets | N/A | N/A |
| c. Rate of compensation increase | 3.5 - 8.0% | 3.5 - 8.0% |
| Weighted-average assumptions used to determine projected benefit obligations as of December 31 | | |
| d. Weighted-average discount rate | 4.3% | 3.7% |
| e. Rate of compensation increase | 3.5 - 8.0% | 3.5 - 8.0% |

(9) Accumulated Benefit Obligation for Defined Benefit Pension Plans

The amount of the accumulated benefit obligation for the defined benefit pension plan was $256,598,329 for the current year and $271,948,637 for the prior year.

(10) For Postretirement Benefits Other Than Pensions, the Assumed Health Care Cost Trend Rate(s)

For postretirement benefits other than pensions, for measurement purposes, 8.50% (pre-65) and 8.50% (post-65) annual rates of increase in the per capita cost of covered health care benefits were assumed for 2018. These rates grade down annually to 4.75% for 2028 and beyond.

(11) Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

| | 1 Percentage Point Increase | 1 Percentage Point Decrease |
|---|---|---|
| a. Effect on total of service and interest cost components | $ 53,593 | $ (41,154) |
| b. Effect on postretirement benefit obligation | $ 331,328 | $ (273,602) |

(12) The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the year indicated:

Pension Benefits

| Year(s) | Amount |
|---|---|
| a. 2019 | $ 20,794,000 |
| b. 2020 | $ 21,979,000 |
| c. 2021 | $ 23,077,000 |
| d. 2022 | $ 22,798,000 |
| e. 2023 | $ 23,384,000 |
| f. 2024 through 2028 | $ 121,267,000 |

Postretirement Benefits

| Year(s) | Amount |
|---|---|
| a. 2019 | $ 1,947,000 |
| b. 2020 | $ 2,081,000 |
| c. 2021 | $ 2,191,000 |
| d. 2022 | $ 2,139,000 |
| e. 2023 | $ 2,244,000 |
| f. 2024 through 2028 | $ 12,902,000 |

(13) Estimate of Contributions Expected to be Paid to the Plan

The Company does not have any regulatory contribution requirements for 2019. In addition, there are no current plans for the Company to make voluntary contributions to the defined benefit pension plan in 2019.

(14) Amounts and Types of Securities Included in Plan Assets

Not Applicable

(15) Alternative Method Used to Amortize Prior Service Amounts or Net Gains and Losses

Not Applicable

(16) Substantive Comment Used to Account for Benefit Obligation

Not Applicable

(17) Cost of Providing Special or Contractual Termination Benefits Recognized

Not Applicable

# NOTES TO FINANCIAL STATEMENTS

(18) Significant Change in the Benefit Obligation or Plan Assets

The Company contributed $60,000,000 to the pension plan in the first quarter of 2018.

(19) Amount and Time Plan Assets Expected to be Returned

There are no plan assets expected to be returned to the employer during the 12-month period following December 31, 2018.

(20) Accumulated Postretirement and Pension Benefit Obligation and Fair Value of Plan Assets for Defined Postretirement and Pension Benefit Plans

The Company contributed $60,000,000 to the pension plan in 2018, resulting in the pension plan being in an overfunded status at December 31, 2018. As required by SSAP 102, overfunded plan assets are nonadmitted. The pension plan was in an underfunded status at December 31, 2017. The impact to surplus to recognize the unfunded status of the pension plan was $17,527,440 at December 31, 2017. The Company has not funded either the postretirement health care or life insurance plans. The impact to surplus to recognize the unfunded status of the Other Postretirement Benefit Plans was $290,098 and $3,968,352 at December 31, 2018 and 2017, respectively.

(21) Full Transition Surplus Impact of SSAP 102

Not Applicable

B. Investment Policies and Strategies

The Company's pension plan assets are invested in the Trust. The investment program for the Trust is based on the precepts of capital market theory that are generally accepted and followed by institutional investors, who by definition are long-term oriented investors. This philosophy holds that:

(1) Increasing risk is rewarded with compensating returns over time and therefore, prudent risk taking is justifiable for long term investors.

(2) Risk can be controlled through diversification of asset classes and investment approaches as well as diversification of individual securities.

(3) Risk is reduced by time, and over time the relative performance of different asset classes is reasonably consistent. Over the long-term, equity investments have provided and should continue to provide superior returns over other security types. Fixed-income securities can dampen volatility and provide liquidity in periods of depressed economic activity. Lengthening duration of fixed income securities may reduce surplus volatility.

(4) The strategic or long-term allocation of assets among various asset classes is an important driver of long term returns.

(5) Relative performance of various asset classes is unpredictable in the short-term and attempts to shift tactically between asset classes are unlikely to be rewarded.

Investments will be made for the sole interest of the participants of the pension plan participating in the Trust. Accordingly, the assets of the Trust shall be invested in accordance with these objectives:

(1) To seek and maintain an adequate funded status with regard to current liabilities within a targeted range.

(2) To manage overall costs of running the pension plan at levels favorable to industry benchmarks.

(3) To ensure assets are available to meet current and future benefit and expense obligations when due.

C. Fair Value of Plan Assets

(1) Fair Value Measurements of Plans Assets at Reporting Date

| Description for each class of plan assets | (Level 1) | (Level 2) | (Level 3) | Total |
|---|---|---|---|---|
| Common/collective trusts | $ | $ | $ | $ |
| Equity accounts | $ | $ 89,601,462 | $ | $ 89,601,462 |
| Multi-asset accounts | $ | $ 9,820,024 | $ | $ 9,820,024 |
| Mutual funds | $ | $ | $ | $ |
| Equity funds | $ 37,041,670 | $ | $ | $ 37,041,670 |
| Fixed income funds | $ 39,213,305 | $ | $ | $ 39,213,305 |
| Pooled separate accounts | $ | $ | $ | $ |
| Fixed income accounts | $ | $ 54,979,840 | $ | $ 54,979,840 |
| Short-term account | $ | $ 2,806,137 | $ | $ 2,806,137 |
| Total Plan Assets | $ 76,254,975 | $ 157,207,463 | $ | $ 233,462,438 |

Pension plan assets also include $80,878,973 of hedge funds where fair value is measured at net asset value per share as a practical expedient and $9,826,391 of limited partnerships which are accounted for under the equity method.

(2) Valuation Technique(s) and Inputs Used to Measure Fair Value

Generally Level 1 financial instruments consist of U.S. domestic equity securities and mutual funds that are actively traded and have quoted prices available. Mutual funds are valued at the Net Asset Value (NAV) of shares held based on the latest quoted market price. Financial instruments included in Level 2 consist of common/collective trusts and pooled separate accounts that have direct or indirect price inputs that are observable in active markets or are measured at NAV. The fair value of the hedge funds is estimated using NAV as a practical expedient. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. The Company obtains prices and/or relevant inputs to fair value calculations from external investment managers or from the custodian of the pension assets, which uses a third party pricing service. For securities not actively traded, the investment manager and/or pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment conditions, and nonbinding broker quotes. Additionally, for investments that do not have quoted market prices whereby fair value is measured using NAV per share as a practical expedient, inputs used in the valuation methodologies also include redemption frequency and redemption notice periods, to give consideration to liquidity constraints, if applicable.

# NOTES TO FINANCIAL STATEMENTS

D. Basis Used to Determine Expected Long-Term Rate-of-Return

The basis of the overall expected long-term rate of return on assets assumption is a forward-looking approach based on the current long-term capital market outlook assumptions of the asset categories the Trust invests in and the Trust's target asset allocation.

The assumed target asset allocation for the program is as follows: 44% equity securities, 47% debt securities, 4% cash and cash equivalents, and 5% other securities. Portfolio expectations were estimated through a combination of underlying asset assumptions including geometric returns, distributions, and correlations. Using these assumptions over a 20 year time horizon under the target asset allocation, 25th to 75th percentile range of annual rates of return is 5.3% - 8.1%.

The Company selected the expected return on asset assumption of 6.50% for 2018. This rate is net of both investment and other administrative expenses charged to the Trust.

E. Defined Contribution Plans

The Company sponsors a defined contribution plan, which is qualified under Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees of the Company and subsidiaries. Employees can contribute up to 80% of their annual salary (up to the elective deferral limits set by the Commissioner of Internal Revenue) to the plan. The Company will contribute an amount equal to 100% of the first 4% of salary contributed by the employee. The plan also provides for additional employer contributions at the discretion of the Board of Directors. The Company's contribution for this plan was $3,639,574 and $3,710,080 for 2018 and 2017, respectively.

F. Multiemployer Plans

Not Applicable

G. Consolidated/Holding Company Plans

The Company is the plan sponsor of a pension program and a postretirement health and life benefit program which cover substantially all employees of the consolidated group.

H. Postemployment Benefits and Compensated Absences

Not Applicable

I. Impact of Medicare Modernization Act on Postretirement Benefits (INT 04-17)

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) was signed into law. The Act allows employers who offer actuarially equivalent prescription drug benefits to retirees to receive a federal subsidy starting in 2006. The Company plans to return any subsidy received to retirees in the form of higher postretirement welfare benefits. Therefore, the effects of the subsidy are not reflected in the measurement of the accumulated postretirement benefit obligation or the net periodic benefit cost.

**Note 13 – Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations**

(1) Number of Shares and Par or Stated Value of Each Class

Not Applicable

(2) Dividend Rate, Liquidation Value and Redemption Schedule of Preferred Stock Issues

Not Applicable

(3) Dividend Restrictions

Not Applicable

(4) Dates and Amounts of Dividends Paid

Not Applicable

(5) Profits that may be Paid as Ordinary Dividends to Stockholders

Not Applicable

(6) Restrictions Plans on Unassigned Funds (Surplus)

Not Applicable

(7) Amount of Advances to Surplus not Repaid

Not Applicable

(8) Amount of Stock Held for Special Purposes

Not Applicable

(9) Reasons for Changes in Balance of Special Surplus Funds from Prior Period

The balance in special surplus funds for the prior year is due to the reclassification from unassigned surplus to special surplus funds, as required under SSAP 106, for the amount the Company anticipated it would pay for its 2018 health insurance provider fee. Nothing was reclassified from unassigned surplus to special surplus in the current year due to the suspension of the fee for 2019 under H.R. 195 Legislation signed by President Trump on January 22, 2018.

(10) The Portion of Unassigned Funds (Surplus) Represented or Reduced by Unrealized Gains and Losses is: $447,133,804.

# NOTES TO FINANCIAL STATEMENTS

(11) The Reporting Entity Issued the Following Surplus Debentures or Similar Obligations

Not Applicable

(12) The Impact of any Restatement Due to Prior Quasi-Reorganizations

Not Applicable

(13) Effective Date of Quasi-Reorganization for a Period of Ten Years Following Reorganization

Not Applicable

**Note 14 – Liabilities, Contingencies and Assessments**

A. Contingent Commitments

(1) The Company is required by licensure requirements of the Blue Cross Blue Shield Association (BCBSA) to execute parental guarantees for its licensed controlled affiliates, pursuant to which the Company guarantees to the full extent of its assets all contractual and financial obligations of WHPI, WSD, FAI, WSH and WVHP to their respective customers. Also, the Company, as the parent of WHPI is required by the Iowa Insurance Division to guarantee the obligations of WHPI to pay for services to enrollees up to $1,100,000.

Through parental guarantees executed between the Company and its joint venture companies WSH and WVHP, the Company guarantees that WSH and WVHP are in compliance with the Iowa statutory minimum for HMO capital and surplus of $1,000,000 or the statutory minimum for risk-based capital for health organizations, whichever is greater.

(2) Detail of Other Contingent Commitments

Not Applicable

(3) Guarantee Obligations

Not Applicable

B. Assessments

(1) Assessments Where Amount is Known or Unknown

The Company is subject to health related assessments by the Iowa Comprehensive Health Association and the Iowa Individual Health Benefit Reinsurance Association for high risk insurance pools. The Company accrued net admitted receivables of $2,870,000 for estimated health related assessments to be returned to the Company at December 31, 2018.

The National Organization of Life & Health Insurance Guaranty Associations (NOLHGA) is an association consisting of the state life and health insurance guaranty organizations. State life and health insurance guaranty organizations, working with NOLHGA, provide a safety net for their state's policyholders, ensuring that they continue to receive coverage even if their insurer is declared insolvent. On March 1, 2017, the Pennsylvania Insurance Commissioner filed an order to place long-term care insurance carrier Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company, or collectively Penn Treaty, into liquidation. The Company and other insurers are required to pay a portion of their policyholder claims through state guaranty association assessments.

For the year-ended December 31, 2017, the Company recognized the estimated portion of the assessment for Penn Treaty of $25,770,000 into expense. The Company's guaranty fund payable is $14,326,052 and $20,511,970 as of December 31, 2018 and 2017, respectively. The assessment will be recoverable through premium tax offsets.

(2) Assessments

Reconciliation of assets recognized from paid and accrued premium tax offsets and policy surcharges related to the Penn Treaty assessment:

| | | | |
|---|---|---|---|
| a. | Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end | $ | 23,270,000 |
| b. | Decreases current period: | | |
| | | | |
| c. | Increases current period: | | |
| | | | |
| d. | Assets recognized from paid and accrued premium tax offsets and policy surcharges current period | $ | 23,270,000 |

(3) Guaranty Fund Liabilities and Assets Related to Assessments from Insolvencies for Long-Term Care Contracts

a. Discount rate applied for guaranty fund liability 3.9%
Discount rate applied for related asset 3.5%

b. The undiscounted and discounted amount of the guaranty fund assessments and related assets by insolvency:

| Name of the Insolvency | Guaranty Fund Assessment Undiscounted | Guaranty Fund Assessment Discounted | Related Assets Undiscounted | Related Assets Discounted |
|---|---|---|---|---|
| Penn Treaty Network America Insurance Company | $ 40,806,052 | $ 14,326,052 | $ 25,770,000 | $ 23,270,000 |

# NOTES TO FINANCIAL STATEMENTS

c. Number of jurisdictions, ranges of years used to discount and weighted average number of years of the discounting time period for payables and recoverables by insolvency:

| | Payables | | | Recoverables | | |
|---|---|---|---|---|---|---|
| Name of the Insolvency | Number of Jurisdictions | Range of Years | Weighted Average Number of Years | Number of Jurisdictions | Range of Years | Weighted Average Number of Years |
| Penn Treaty Network America Insurance Company | 1 | 1 - 26 | 11 | 1 | 1 - 5 | 2 |

C. Gain Contingencies

Not Applicable

D. Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits - Total SSAP 97 and SSAP 48 Contingent Liabilities

Not Applicable

E. Joint and Several Liabilities

Not Applicable

F. All Other Contingencies

The Company contracts with an unaffiliated company to handle data processing needs. Charges to the Company, after allocation of a portion of the costs to subsidiaries and affiliates, amounted to approximately $8,598,000 in 2018. Future minimum payments through December 31, 2025, expiration date of the contract, total approximately $23,940,000. In addition, such payments are subject to annual adjustments based upon policyholder count and other volume factors. The Company also contracts with another unaffiliated company for products and services. Charges to the Company, after allocation of a portion of the costs to subsidiaries and affiliates, amounted to approximately $8,416,000 in 2018. Future minimum payments through December 31, 2032, the expiration date of this contract, total approximately $108,961,000 for this contract.

The Company has agreements with various vendors for services and equipment in connection with the Company's disaster recovery site. Future minimum payments through August 9, 2022, expiration date of the longest agreement, total approximately $2,442,000.

In the ordinary course of business, the Company is involved in and subject to claims, contractual disputes and other uncertainties, which the Company defends vigorously.

While the ultimate outcome of any other claims cannot be presently determined, in the opinion of management, adequate provision has been made for any potential losses which may result from these actions and the Company expects any liability that could result will not materially affect its financial position.

**Note 15 – Leases**

A. Lessee Operating Lease

(1) Lessee's Leasing Arrangements

a. Rental Expense

The Company leases office space, parking facilities and equipment under various noncancelable operating lease agreements that expire through December 2023. Rental expense associated with these lease arrangements was approximately $468,000 and $705,000 for 2018 and 2017, respectively.

b. Basis on Which Contingent Rental Payments are Determined

Not Applicable

c. Existence and Terms of Renewal or Purchase Options and Escalation Clauses

Certain rental commitments have renewal options extending through the year 2033. Some of these renewals are subject to adjustments in future periods.

d. Restrictions Imposed by Lease Agreements

Not Applicable

e. Identification of Lease Agreements that have been Terminated Early

Not Applicable

(2) Leases with Initial or Remaining Noncancelable Lease Terms in Excess of One Year

a. At December 31, 2018 the minimum aggregate rental commitments are as follows:

| Year Ending December 31 | Operating Leases |
|---|---|
| 1. 2019 | $ 705,918 |
| 2. 2020 | $ 703,509 |
| 3. 2021 | $ 671,925 |
| 4. 2022 | $ 577,695 |
| 5. 2023 | $ 534,765 |
| 6. Total | $ 3,193,812 |

# NOTES TO FINANCIAL STATEMENTS

b. Total of Minimum Rentals to be Received in the Future under Noncancelable Subleases

Not Applicable

(3) For Sale-Leaseback Transactions

Not Applicable

B. Lessor Leases

Not Applicable

**Note 16 – Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk**

Not Applicable

**Note 17 – Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

A. Transfers of Receivables Reported as Sales

Not Applicable

B. Transfer and Servicing of Financial Assets

Not Applicable

C. Wash Sales

(1) Description of the Objectives Regarding These Transactions

During the year, the Company's external investment managers entered into several transactions that met wash sale criteria. The transactions occurred as a result of reallocation of funds.

(2) The details by NAIC designation 3 or below, or unrated of securities sold during the year ended December 31, 2018 and reacquired within 30 days of the sale date are:

| Description | NAIC Designation | Number of Transactions | Book Value of Securities Sold | Cost of Securities Repurchased | Gain/(Loss) |
|---|---|---|---|---|---|
| Common Stock - Industrial & Miscellaneous | | 5 | $ 1,356,619 | $ 822,869 | $ (76,655) |

**Note 18 – Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans**

A. ASO Plans

Not Applicable

B. ASC Plans

The gain or loss from operations from Administrative Services Contract (ASC) uninsured plans and the uninsured portion of partially insured plans was as follows during 2018:

| | | ASC Uninsured Plans | Uninsured Portion of Partially Insured Plans | Total ASC |
|---|---|---|---|---|
| a. | Gross reimbursement for medical cost incurred | $ 1,067,281,914 | $ 1,368,992,272 | $ 2,436,274,186 |
| b. | Gross administrative fees accrued | 43,702,444 | 87,082,465 | 130,784,909 |
| c. | Other income or expenses (including interest paid to or received from plans) | 10,110 | 115,384 | 125,494 |
| d. | Gross expenses incurred (claims and administrative) | 1,127,743,105 | 1,471,282,419 | 2,599,025,524 |
| e. | Total net gain or loss from operations | $ (16,748,637) | $ (15,092,298) | $ (31,840,935) |

C. Medicare or Similarly Structured Cost Based Reimbursement Contract

Reimbursements from Centers for Medicare and Medicaid Services (CMS) for the Company's participation in the Medicare Part D program for the year ended December 31, 2018 were $46,228,273. This amount represents pharmacy benefit cost reimbursements for the Reinsurance Subsidy and Low-Income Cost Sharing Subsidy elements of the Medicare Part D program.

At December 31, 2018, the Company has a receivable of $789,695 from CMS for these reimbursements and has recorded a payable of $4,464,734 for pre-funded amounts received from CMS not applied to benefit payments.

During the year, the Company returned a net amount of $3,203,664 for prior year pre-funded amounts received from CMS not applied to benefit payments.

**Note 19 – Direct Premium Written/Produced by Managing General Agents/Third Party Administrators**

Not Applicable

# NOTES TO FINANCIAL STATEMENTS

**Note 20 – Fair Value Measurements**

A. Fair Value Measurements

(1) Fair Value Measurements at Reporting Date

| Description for Each Type of Asset or Liability | Level 1 | Level 2 | Level 3 | Net Asset Value (NAV) | Total |
|---|---|---|---|---|---|
| Assets at Fair Value | | | | | |
| Cash Equivalents | $ | $ | $ | $ | $ |
| Exempt MM Mutual Fund | $ 14,208,626 | $ | $ | $ | $ 14,208,626 |
| Sweep Account | $ | $ 38,735,563 | $ | $ | $ 38,735,563 |
| Bonds | $ | $ | $ | $ | $ |
| Political Subdivision | $ | $ 1,463,129 | $ | $ | $ 1,463,129 |
| Special Rev./Assess. Oblig. | $ | $ 963,298 | $ | $ | $ 963,298 |
| Industrial & Miscellaneous | $ | $ 11,508,587 | $ | $ | $ 11,508,587 |
| Bank Loans | $ | $ 17,697,655 | $ | $ | $ 17,697,655 |
| Preferred Stock | $ | $ | $ | $ | $ |
| Industrial & Miscellaneous | $ 756,802 | $ | $ | $ | $ 756,802 |
| Common Stock | $ | $ | $ | $ | $ |
| Industrial & Miscellaneous | $ 321,817,922 | $ | $ 4,355,435 | $ | $ 326,173,357 |
| Mutual Funds | $ 44,640,171 | $ | $ | $ | $ 44,640,171 |
| Total | $ 381,423,521 | $ 70,368,232 | $ 4,355,435 | $ | $ 456,147,188 |
| Liabilities at Fair Value | | | | | |
| | $ | $ | $ | $ | $ |
| Total | $ | $ | $ | $ | $ |

(2) Fair Value Measurements in (Level 3) of the Fair Value Hierarchy

| Description | Beginning Balance at 1/1/2018 | Transfers Into Level 3 | Transfers Out of Level 3 | Total Gains and (Losses) Included in Net Income | Total Gains and (Losses) Included in Surplus | Purchases | Issuances | Sales | Settle-ments | Ending Balance at 12/31/2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| a. Assets | | | | | | | | | | |
| Common Stock - Industrial & Miscellaneous | $ 3,865,158 | $ | $ | $ | $ 490,277 | $ | $ | $ | $ | $ 4,355,435 |
| Total | $ 3,865,158 | $ | $ | $ | $ 490,277 | $ | $ | $ | $ | $ 4,355,435 |
| b. Liabilities | | | | | | | | | | |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Total | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |

(3) Policies when Transfers Between Levels are Recognized

The Company recognizes transfers between fair value hierarchy levels at the end of the reporting period. During the reporting period, foreign currency denominated, publicly traded preferred and common stocks were transferred from Level 2 to Level 1 based on a detailed review of the pricing inputs and management judgment.

(4) Description of Valuation Techniques and Inputs Used in Fair Value Measurement

Bonds, structured securities, and surplus notes are reported within Level 2 of the fair value hierarchy; all of these securities have direct or indirect price inputs that are observable in active markets. Fair values of these fixed income instruments are based on quoted market prices where available. The Company obtains at least one price from a third party pricing service or its custodian, which also uses a pricing service. In most instances, the Company obtains more than one price and evaluates between the pricing sources for any outliers or stale prices. Assuming prices are not stale and are reasonable between sources, the Company uses a pre-established hierarchy to conclude on which pricing source to utilize.

The pricing services normally derive security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, benchmark yields, credit spreads, default rates, prepayment conditions, and nonbinding broker quotes.

Level 3 financial instruments include privately held stocks whose fair values have been determined analytically by the NAIC Securities Valuation Office or estimated by management utilizing information provided by the respective companies who have issued the stock in the absence of readily ascertainable fair market values.

(5) Fair Value Disclosures

Not Applicable

B. Fair Value Reporting under SSAP 100 and Other Accounting Pronouncements

Statutory guidance requires the disclosure of fair values for certain other financial instruments for which it is practicable to estimate fair value, whether or not such values are recognized in the statements of assets, liabilities, capital and surplus. The carrying amounts for cash, receivable for securities, accrued investment income, premium receivables, other receivables, amounts due to/from affiliates, unearned premiums, accounts payable and accrued expenses, and certain other liabilities approximate fair value because of the short-term nature of these items.

# NOTES TO FINANCIAL STATEMENTS

C. Fair Value Level

| Type of Financial Instrument | Aggregate Fair Value | Admitted Assets | (Level 1) | (Level 2) | (Level 3) | Net Asset Value (NAV) | Not Practicable (Carrying Value) |
|---|---|---|---|---|---|---|---|
| Cash Equivalents | $ 59,067,409 | $ 59,067,316 | $ 14,208,626 | $ 44,858,783 | $ | $ | $ |
| Short-Term Investments | $ 13,434,737 | $ 13,432,227 | $ | $ 13,434,737 | $ | $ | $ |
| Bonds | $ 892,195,483 | $ 877,978,768 | $ | $ 892,195,483 | $ | $ | $ |
| Preferred Stock | $ 756,802 | $ 756,802 | $ 756,802 | $ | $ | $ | $ |
| Common Stock | $ 370,813,528 | $ 370,813,528 | $ 366,458,093 | $ | $ 4,355,435 | $ | $ |
| Other Invested Assets | $ 848,469 | $ 619,475 | $ | $ 848,469 | $ | $ | $ |

D. Not Practicable to Estimate Fair Value

Not Applicable

E. NAV Practical Expedient Investments

Not Applicable

**Note 21 – Other Items**

A. Unusual or Infrequent Items

Not Applicable

B. Troubled Debt Restructuring Debtors

Not Applicable

C. Other Disclosures

Assets in the amount of $5,752,984 at December 31, 2018 were committed to purchase mortgage-backed securities in 2019.

D. Business Interruption Insurance Recoveries

Not Applicable

E. State Transferable and Non-Transferable Tax Credits

Not applicable

F. Subprime Mortgage Related Risk Exposure

(1) Description of the Subprime-Mortgage-Related Risk Exposure and Related Risk Management Practices

The Company's investment policy, approved by the Board of Directors, requires the use of high quality fixed income investments to cover its contractual liabilities. The investment policy requires that the Company's fixed income portfolio, excluding non-agency mortgage-backed securities, have a minimum average quality rating of BBB+ and the total of below investment grade securities, excluding non-agency mortgage-backed securities, is limited to 10% of the total portfolio. Further, no single issue, with the exception of US Government and Agency securities, can exceed 5% of an external investment manager's portfolio at time of purchase. The Company allows certain external investment managers to purchase non-agency mortgage-backed securities, and credit quality of those securities is at manager discretion with NAIC designation 1 or 2 preferred. The Company utilizes its strategic and tactical asset allocation to manage risk exposure, through allocations to various external investment managers with varying mandates.

The Company's exposure to subprime mortgages at December 31, 2018 is 1.9% of its total portfolio. The Company is receiving principal and interest payments on the subprime mortgage securities, and the Company does not require sale of these types of assets to meet future cash flow requirements. These securities are in gross unrealized gain and loss positions of $4,636,705 and $290,123, respectively, as of December 31, 2018. While no single definition exists for subprime, these securities are considered higher risk and carry higher than prime rates of interest. In addition to the interest rates, the Company considers the FICO scores below 660, level of documentation, evidence of delinquency, foreclosure, judgments or bankruptcy and other factors that limit the borrower's ability to service the debt when determining if a security should be classified as subprime.

(2) Direct Exposure Through Investments in Subprime Mortgage Loans

Not Applicable

(3) Direct Exposure Through Other Investments

| | | Actual Cost | Book/Adjusted Carrying Value (Excluding Interest) | Fair Value | Other-Than-Temporary Impairment Losses Recognized |
|---|---|---|---|---|---|
| a. | Residential mortgage-backed securities | $ 36,380,913 | $ 39,333,480 | $ 43,691,052 | $ 147,011 |
| b. | Commercial mortgage-backed securities | | | | |
| c. | Collateralized debt obligations | | | | |
| d. | Structured securities | 1,207,450 | 1,197,824 | 1,186,835 | |
| e. | Equity investments in SCAs* | | | | |
| f. | Other assets | | | | |
| g. | Total | $ 37,588,363 | $ 40,531,304 | $ 44,877,887 | $ 147,011 |

* These investments comprise 0% of the company's invested assets.

# NOTES TO FINANCIAL STATEMENTS

(4) Underwriting Exposure to Subprime Mortgage Risk Through Mortgage Guaranty or Financial Guaranty Insurance Coverage

Not Applicable

G. Retained Assets

Not Applicable

H. Insurance-Linked Securities (ILS) Contracts

Not Applicable

**Note 22 – Events Subsequent**

Type I - Recognized Subsequent Events:

Subsequent events have been considered through February 18, 2019 for the statutory statement issued on February 28, 2019.

Type II - Nonrecognized Subsequent Events:

Subsequent events have been considered through February 18, 2019 for the statutory statement issued on February 28, 2019.

In 2018, the Company was subject to an annual fee under section 9010 of the federal Affordable Care Act (ACA). This annual fee is allocated to individual health insurers based on the ratio of the amount of the entity's net premiums written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. A health insurance entity's portion of the annual fee becomes payable once the entity provides health insurance for any U.S. health risk for the calendar year beginning on or after January 1 of the year the fee is due. As of December 31, 2017, the Company had written health insurance subject to the ACA assessment, expected to conduct health insurance business in 2018, and estimated their portion of the health insurance industry fee payable on September 30, 2018 to be $46,400,000. This amount was reflected in special surplus in 2017. The actual amount of the fee paid in 2018 was $42,850,412.

The annual health insurance fee has been suspended for 2019 under the H.R. 195 Legislation signed by President Trump on January 22, 2018. Due to the suspension of the fee for 2019, no amount has been reclassified from unassigned surplus to special surplus in 2018; and no premiums written in 2018 are subject to the the ACA section 9010 assessment. The fee was also suspended for 2017, and therefore, no ACA assessment was paid in 2017.

A. Did the reporting entity write accident and health insurance premium that is subject to Section 9010 of the Federal Affordable Care Act (YES/NO)? Yes [ X ] No [ ]

| | | 2018 | 2017 |
|---|---|---|---|
| B. | ACA fee assessment payable for the upcoming year | $ | $ 46,400,000 |
| C | ACA fee assessment paid | $ 42,850,412 | $ |
| D. | Premium written subject to ACA 9010 assessment | $ | $ 2,043,721,161 |
| E. | Total adjusted capital before surplus adjustment (Five-Year Historical Line 14) | $ 1,567,303,983 | |
| F. | Total adjusted capital after surplus adjustment (Five-Year Historical Line 14 minus 22B above) | $ 1,567,303,983 | |
| G. | Authorized control level (Five-Year Historical Line 15) | $ 153,973,624 | |

H. Would reporting the ACA assessment as of December 31, 2018 have triggered an RBC action level (YES/NO)? Yes [ ] No [ X ]

**Note 23 – Reinsurance**

A. Ceded Reinsurance Report

**Section1 – General Interrogatories**

(1) Are any of the reinsurers listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company? Yes [ ] No [ X ]

(2) Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or any other person not primarily engaged in the insurance business? Yes [ ] No [ X ]

**Section 2 – Ceded Reinsurance Report – Part A**

(1) Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credits? Yes [ ] No [ X ]

(2) Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies? Yes [ ] No [ X ]

**Section 3 – Ceded Reinsurance Report – Part B**

(1) What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credits that are reflected in Section 2 above) of termination of ALL reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate.

Not Applicable

(2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement? Yes [ ] No [ X ]

B. Uncollectible Reinsurance

Not Applicable

# NOTES TO FINANCIAL STATEMENTS

C. Commutation of Ceded Reinsurance

Not Applicable

D. Certified Reinsurer Rating Downgraded or Status Subject to Revocation

Not Applicable

**Note 24 – Retrospectively Rated Contracts and Contracts Subject to Redetermination**

A. Method Used to Estimate Accrued Retrospective Premium Adjustments

The Company's participation in the Medicare Part D program includes a risk sharing provision with CMS. The Company estimates accrued retrospective premium adjustments for its Medicare Part D products through a prescribed formula approach. CMS adjusts its payments to the Company based on how actual benefit costs varied from the costs anticipated in the Company's bid for the Medicare Part D products. At December 31, 2018, the Company had three prior years remaining to be settled with CMS for the Medicare Part D products. The risk sharing amounts relating to all other prior years have been settled with CMS.

The Company estimates accrued retrospective premium adjustments for individuals, small groups and large groups according to retrospective rating features pursuant to the medical loss ratio rebate requirements subject to the Public Health Service Act.

B. Retrospective Premiums Recorded Through Written Premium or Adjustment to Earned Premium

The Company records accrued retrospective premium as an adjustment to earned premium.

C. Amount and Percentage of Net Premiums Written Subject to Retrospective Rating Features

The amount of net premiums written by the Company at December 31, 2018 that are subject to retrospective rating features was $1,944,833,669, which represented 74.4% of the total net premiums written for the Company. No other net premiums written by the Company are subject to retrospective rating features.

D. Medical Loss Ratio Rebates Required Pursuant to the Public Health Service Act

The Company estimates no medical loss ratio rebates required pursuant to the Public Health Services Act at December 31, 2018.

E. Risk Sharing Provisions of the Affordable Care Act

(1) Did the reporting entity write accident and health insurance premium which is subject to the Affordable Care Act Risk Sharing Provisions Yes [ X ] No [ ]

(2) Impact of Risk Sharing Provisions of the Affordable Care Act on admitted assets, liabilities and revenue for the current year:

| a. Permanent ACA Risk Adjustment Program | AMOUNT |
|---|---|
| Assets | |
| 1. Premium adjustments receivable due to ACA Risk Adjustment (including high risk pool payments) | $ 8,148,658 |
| Liabilities | |
| 2. Risk adjustment user fees payable for ACA Risk Adjustment | $ 102,159 |
| 3. Premium adjustments payable due to ACA Risk Adjustment (including high risk pool premium) | $ |
| Operations (Revenue & Expenses) | |
| 4. Reported as revenue in premium for accident and health contracts (written/collected) due to ACA Risk Adjustment | $ 6,928,996 |
| 5. Reported in expenses as ACA Risk Adjustment user fees (incurred/paid) | $ 100,125 |

| b. Transitional ACA Reinsurance Program | AMOUNT |
|---|---|
| Assets | |
| 1. Amounts recoverable for claims paid due to ACA Reinsurance | $ |
| 2. Amounts recoverable for claims unpaid due to ACA Reinsurance (contra liability) | $ |
| 3. Amounts receivable relating to uninsured plans for contributions for ACA Reinsurance | $ |
| Liabilities | |
| 4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premium | $ |
| 5. Ceded reinsurance premiums payable due to ACA Reinsurance | $ |
| 6. Liabilities for amounts held under uninsured plans contributions for ACA Reinsurance | $ |
| Operations (Revenue & Expenses) | |
| 7. Ceded reinsurance premiums due to ACA Reinsurance | $ |
| 8. Reinsurance recoveries (income statement) due to ACA Reinsurance payments or expected payments | $ |
| 9. ACA Reinsurance contributions – not reported as ceded premium | $ |

| c. Temporary ACA Risk Corridors Program | AMOUNT |
|---|---|
| Assets | |
| 1. Accrued retrospective premium due to ACA Risk Corridors | $ |
| Liabilities | |
| 2. Reserve for rate credits or policy experience rating refunds due to ACA Risk Corridors | $ |
| Operations (Revenue & Expenses) | |
| 3. Effect of ACA Risk Corridors on net premium income (paid/received) | $ |
| 4. Effect of ACA Risk Corridors on change in reserves for rate credits | $ |

# NOTES TO FINANCIAL STATEMENTS

(3) Roll forward of prior year ACA Risk Sharing Provisions for the following asset (gross of any nonadmission) and liability balances along with the reasons for adjustments to prior year balance:

| | Accrued During the Prior Year on Business Written Before Dec. 31 of the Prior Year | | Received or Paid as of the Current Year on Business Written Before Dec. 31 of the Prior Year | | Differences | | Adjustments | | Ref | Unsettled Balances as of the Reporting Date | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Prior Year Accrued Less Payments (Col. 1-3) | Prior Year Accrued Less Payments (Col. 2-4) | To Prior Year Balances | To Prior Year Balances | | Cumulative Balance from Prior Years (Col. 1-3+7) | Cumulative Balance from Prior Years (Col. 2-4+8) |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | | 0 | 10 |
| | Receivable | (Payable) | Receivable | (Payable) | Receivable | (Payable) | Receivable | (Payable) | | Receivable | (Payable) |
| a. Permanent ACA Risk Adjustment Program | | | | | | | | | | | |
| 1. Premium adjustments receivable (including high risk pool payments) | $ 14,500,000 | $ | $ 13,117,561 | $ | $ 1,382,439 | $ | $ (790,781) | $ | A | $ 591,658 | $ |
| 2. Premium adjustments (payable) (including high risk pool premium) | | | | | | | | | | | |
| 3. Subtotal ACA Permanent Risk Adjustment Program | $ 14,500,000 | $ | $ 13,117,561 | $ | $ 1,382,439 | $ | $ (790,781) | $ | | $ 591,658 | $ |
| b. Transitional ACA Reinsurance Program | | | | | | | | | | | |
| 1. Amounts recoverable for claims paid | $ 1,751,855 | $ | $ 1,701,770 | $ | $ 50,085 | $ | $ | $ | | $ 50,085 | $ |
| 2. Amounts recoverable for claims unpaid (contra liability) | | | | | | | | | | | |
| 3. Amounts receivable relating to uninsured plans | | | | | | | | | | | |
| 4. Liabilities for contributions payable due to ACA Reinsurance – not reported as ceded premiums | | | | | | | | | | | |
| 5. Ceded reinsurance premiums payable | | | | | | | | | | | |
| 6. Liability for amounts held under uninsured plans | | | | | | | | | | | |
| 7. Subtotal ACA Transitional Reinsurance Program | $ 1,751,855 | $ | $ 1,701,770 | $ | $ 50,085 | $ | $ | $ | | $ 50,085 | $ |
| c. Temporary ACA Risk Corridors Program | | | | | | | | | | | |
| 1. Accrued retrospective premium | $ | $ | $ | $ | $ | $ | $ | $ | | $ | $ |
| 2. Reserve for rate credits or policy experience rating refunds | | | | | | | | | | | |
| 3. Subtotal ACA Risk Corridors Program | $ | $ | $ | $ | $ | $ | $ | $ | | $ | $ |
| d. Total for ACA Risk Sharing Provisions | $ 16,251,855 | $ | $ 14,819,331 | $ | $ 1,432,524 | $ | $ (790,781) | $ | | $ 641,743 | $ |

Explanations of Adjustments

A. Revised data received.

(4) Roll-Forward of Risk Corridors Asset and Liability Balances by Program Benefit Year

Not Applicable

(5) ACA Risk Corridors Receivable as of Reporting Date

Not Applicable

**Note 25 – Change in Incurred Losses and Loss Adjustment Expenses**

A. Change in Incurred Losses and Loss Adjustment Expenses

The Company's reserves for incurred claims and claim adjustment expenses attributable to insured events of prior years have decreased by $38,710,876 from $352,229,236 in 2017. Because unpaid losses are estimated based on past experience and accumulated statistical data, the Company's actual benefit payments have varied from the original estimates.

# NOTES TO FINANCIAL STATEMENTS

B. Information about Significant Changes in Methodologies and Assumptions

There have been no significant changes in methodologies and assumptions used in calculating the liability for unpaid losses and loss adjustment expenses.

**Note 26 – Intercompany Pooling Arrangements**

Not Applicable

**Note 27 – Structured Settlements**

Not Applicable

**Note 28 – Health Care Receivables**

A. Pharmaceutical Rebate Receivables

| Quarter | Estimated Pharmacy Rebates as Reported on Financial Statements | Pharmacy Rebates as Billed or Otherwise Confirmed | Actual Rebates Received Within 90 Days of Billing | Actual Rebates Received Within 91 to 180 Days of Billing | Actual Rebates Received More than 180 Days After Billing |
|---|---|---|---|---|---|
| 12/31/2018 | $ 26,502,453 | $ | $ | $ | $ |
| 09/30/2018 | $ 24,724,046 | $ 20,704,708 | $ 4,111,089 | $ | $ |
| 06/30/2018 | $ 24,414,684 | $ 23,842,814 | $ | $ 23,168,905 | $ |
| 03/31/2018 | $ 25,028,463 | $ 24,643,203 | $ | $ 22,929,202 | $ (19,772) |
| 12/31/2017 | $ 25,693,417 | $ 26,557,344 | $ | $ 25,971,543 | $ 1,123,406 |
| 09/30/2017 | $ 24,313,827 | $ 24,414,991 | $ | $ 23,502,278 | $ 595,370 |
| 06/30/2017 | $ 24,559,257 | $ 18,675,206 | $ 4,445,399 | $ 19,204,834 | $ 341,847 |
| 03/31/2017 | $ 22,579,338 | $ 24,438,006 | $ | $ 21,638,715 | $ 904,172 |
| 12/31/2016 | $ 23,705,008 | $ 21,112,025 | $ | $ 21,819,846 | $ 5,182,810 |
| 09/30/2016 | $ 22,775,836 | $ 23,974,091 | $ | $ 19,813,162 | $ 7,456,382 |
| 06/30/2016 | $ 22,479,117 | $ 17,365,473 | $ | $ 19,232,424 | $ 6,709,940 |
| 03/31/2016 | $ 19,301,217 | $ 22,795,255 | $ | $ 17,315,497 | $ 7,309,362 |

B. Risk Sharing Receivables

Not Applicable

**Note 29 – Participating Policies**

Not Applicable

**Note 30 – Premium Deficiency Reserves**

1. Liability carried for premium deficiency reserve: $0
2. Date of most recent evaluation of this liability: January 18, 2019
3. Was anticipated investment income utilized in the calculation? Yes [ X ] No [ ]

**Note 31 – Anticipated Salvage and Subrogation**

Not Applicable

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

### GENERAL

1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [ X ] No [ ]
If yes, complete Schedule Y, Parts 1, 1A and 2.

1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [ X ] No [ ] N/A [ ]

1.3 State regulating? Iowa

1.4 Is the reporting entity publicly traded or a member of publicly traded group? Yes [ ] No [ X ]

1.5 If the response to 1.4 is yes, provide the CIK (Central Index Key) code issued by the SEC for the entity/group.

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ X ] No [ ]

2.2 If yes, date of change: 03/05/2018

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2016

3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2016

3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 06/29/2018

3.4 By what department or departments?
Iowa Insurance Division

3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments? Yes [ ] No [ ] N/A [ X ]

3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [ ] No [ ] N/A [ X ]

4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business? Yes [ ] No [ X ]

4.12 renewals? Yes [ ] No [ X ]

4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business? Yes [ ] No [ X ]

4.22 renewals? Yes [ ] No [ X ]

5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [ X ]
If the answer is YES, complete and file the merger history data file with the NAIC.

5.2 If yes, provide the name of entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

| 1<br>Name of Entity | 2<br>NAIC Company Code | 3<br>State of Domicile |
|---|---|---|
| | | |

6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [ ] No [ X ]

6.2 If yes, give full information:

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [ X ]

7.2 If yes,

7.21 State the percentage of foreign control %

7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

| 1<br>Nationality | 2<br>Type of Entity |
|---|---|
| | |

8.1 Is the company a subsidiary of a bank holding company regulated with the Federal Reserve Board? Yes [ ] No [ X ]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [ X ]

8.4 If the response to 8.3 is yes, please provide below the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

| 1<br>Affiliate Name | 2<br>Location (City, State) | 3<br>FRB | 4<br>OCC | 5<br>FDIC | 6<br>SEC |
|---|---|---|---|---|---|
| | | | | | |

9\. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
Ernst & Young LLP, 801 Grand Avenue, Des Moines, IA 50309

10.1 Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation? Yes [ ] No [ X ]

10.2 If the response to 10.1 is yes, provide information related to this exemption:

10.3 Has the insurer been granted any exemptions related to other requirements of the Annual Financial Reporting Model Regulation as allowed for in Section 18A of the Model Regulation, or substantially similar state law or regulation? Yes [ ] No [ X ]

10.4 If the response to 10.3 is yes, provide information related to this exemption:

10.5 Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws? Yes [ X ] No [ ] N/A [ ]

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

10.6 If the response to 10.5 is no or n/a, please explain:

11. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
Daniel J. Callahan, Senior Actuary, FSA, MAAA (employee), 1331 Grand Avenue, Des Moines, IA 50309-2901

12.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [ X ]

12.11 Name of real estate holding company

12.12 Number of parcels involved 0

12.13 Total book/adjusted carrying value $ 0

12.2 If yes, provide explanation

13. **FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:**

13.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

13.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [ ]

13.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [ ]

13.4 If answer to (13.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [ ]

14.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes [ X ] No [ ]

(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

(c) Compliance with applicable governmental laws, rules and regulations;

(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

(e) Accountability for adherence to the code.

14.11 If the response to 14.1 is no, please explain:

14.2 Has the code of ethics for senior managers been amended? Yes [ ] No [ X ]

14.21 If the response to 14.2 is yes, provide information related to amendment(s).

14.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [ ] No [ X ]

14.31 If the response to 14.3 is yes, provide the nature of any waiver(s).

15.1 Is the reporting entity the beneficiary of a Letter of Credit that is unrelated to reinsurance where the issuing or confirming bank is not on the SVO Bank List? Yes [ ] No [ X ]

15.2 If the response to 15.1 is yes, indicate the American Bankers Association (ABA) Routing Number and the name of the issuing or confirming bank of the Letter of Credit and describe the circumstances in which the Letter of Credit is triggered.

| 1<br>American Bankers Association (ABA) Routing Number | 2<br>Issuing or Confirming Bank Name | 3<br>Circumstances That Can Trigger the Letter of Credit | 4<br>Amount |
|---|---|---|---|
| | | | $ |

## BOARD OF DIRECTORS

16. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinator committee thereof? Yes [ X ] No [ ]

17. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof? Yes [ X ] No [ ]

18. Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [ X ] No [ ]

## FINANCIAL

19. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)? Yes [ ] No [ X ]

20.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

20.11 To directors or other officers $ 0

20.12 To stockholders not officers $ 0

20.13 Trustees, supreme or grand (Fraternal only) $ 0

20.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

20.21 To directors or other officers $ 0

20.22 To stockholders not officers 0

20.23 Trustees, supreme or grand (Fraternal only) 0

21.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reporting in the statement? Yes [ ] No [ X ]

21.2 If yes, state the amount thereof at December 31 of the current year:

21.21 Rented from others $ 0

21.22 Borrowed from others $ 0

21.23 Leased from others $ 0

21.24 Other $ 0

22.1 Does this statement include payments for assessments as described in the *Annual Statement Instructions* other than guaranty fund or guaranty association assessments? Yes [ X ] No [ ]

22.2 If answer is yes:

22.21 Amount paid as losses or risk adjustment $ 9,687,344

22.22 Amount paid as expenses $ 0

22.23 Other amounts paid $ 0

23.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [ X ] No [ ]

23.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ 0

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

### INVESTMENT

24.01 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date (other than securities lending programs addressed in 24.03)? Yes [ X ] No [ ]

24.02 If no, give full and complete information, relating thereto:

24.03 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet (an alternative is to reference Note 17 where this information is also provided).
The Company participates in a securities lending program through its custodian bank, Bank of New York Mellon (BNYM). On the day the loan is delivered, BNYM obtains collateral equal in amount to 102% for securities of United States issuers and 105% for securities of non-United States issuers of the market value of the securities loaned plus accrued interest. The collateralization of all loans is then reviewed daily during the term of the loan. Cash received as collateral will be held and maintained by BNYM in one of its collective investment vehicles in accordance with the investment guidelines provided in the securities lending agreement. Prior to the close of business for the calendar year, at the request of the Company, BNYM recalls all securities that are out on loan. As of December 31, 2018, no securities were on loan.

24.04 Does the company's security lending program meet the requirements for a conforming program as outlined in the *Risk-Based Capital Instructions*? Yes [ X ] No [ ] N/A [ ]

24.05 If answer to 24.04 is yes, report amount of collateral for conforming programs. $ 0

24.06 If answer to 24.04 is no, report amount of collateral for other programs $ 0

24.07 Does your securities lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract? Yes [ X ] No [ ] N/A [ ]

24.08 Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%? Yes [ ] No [ ] N/A [ X ]

24.09. Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending? Yes [ X ] No [ ] N/A [ ]

24.10 For the reporting entity's security lending program, state the amount of the following as of December 31 of the current year:

24.101 Total fair value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2: $ 0

24.102 Total book adjusted/carrying value of reinvested collateral assets reported on Schedule DL, Parts 1 and 2: $ 0

24.103 Total payable for securities lending reported on the liability page: $ 0

25.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is current in force? (Exclude securities subject to Interrogatory 21.1 and 24.03.) Yes [ X ] No [ ]

25.2 If yes, state the amount thereof at December 31 of the current year:

| | | |
|---|---|---|
| 25.21 | Subject to repurchase agreements | $ 38,735,563 |
| 25.22 | Subject to reverse repurchase agreements | $ 0 |
| 25.23 | Subject to dollar repurchase agreements | $ 0 |
| 25.24 | Subject to reverse dollar repurchase agreements | $ 0 |
| 25.25 | Placed under option agreements | $ 0 |
| 25.26 | Letter stock or securities restricted as sale – excluding FHLB Capital Stock | $ 0 |
| 25.27 | FHLB Capital Stock | $ 0 |
| 25.28 | On deposit with states | $ 0 |
| 25.29 | On deposit with other regulatory bodies | $ 0 |
| 25.30 | Pledged as collateral – excluding collateral pledged to an FHLB | $ 0 |
| 25.31 | Pledged as collateral to FHLB – including assets backing funding agreements | $ 0 |
| 25.32 | Other | $ 0 |

25.3 For category (25.26) provide the following:

| 1<br>Nature of Restriction | 2<br>Description | 3<br>Amount |
|---|---|---|
| | | $ |

26.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [ X ]

26.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes [ ] No [ ] N/A [ X ]
If no, attach a description with this statement.

27.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [ ] No [ X ]

27.2 If yes, state the amount thereof at December 31 of the current year: $ 0

28. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC *Financial Condition Examiners Handbook*? Yes [ X ] No [ ]

28.01 For agreements that comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, complete the following:

| 1<br>Name of Custodian(s) | 2<br>Custodian's Address |
|---|---|
| The Bank of New York Mellon | BNY Mellon Center, 500 Grant Street, Pittsburgh, PA 15258 |
| Bankers Trust Company | 453 7th Street, Des Moines, IA 50309 |

28.02 For all agreements that do not comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, provide the name, location and a complete explanation

| 1<br>Name(s) | 2<br>Location(s) | 3<br>Complete Explanation(s) |
|---|---|---|
| | | |

28.03 Have there been any changes, including name changes, in the custodian(s) identified in 28.01 during the current year? Yes [ ] No [ X ]

28.04 If yes, give full and complete information relating thereto:

| 1<br>Old Custodian | 2<br>New Custodian | 3<br>Date of Change | 4<br>Reason |
|---|---|---|---|
| | | | |

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

28.05 Investment management – Identify all investment advisors, investment managers, broker/dealers, including individuals that have the authority to make investment decisions on behalf of the reporting entity. For assets that are managed internally by employees of the reporting entity, note as such. ["…that have access to the investment accounts", "… handle securities"].

| 1<br>Name of Firm or Individual | 2<br>Affiliation |
|---|---|
| NISA Investment Advisors, LLC | U |
| Wellington Management Company LLP | U |
| Fisher Investments, Inc. | U |
| BlackRock Financial Management, Inc. | U |
| Metropolitan West Asset Management LLC | U |
| Pyrford International, Ltd. | U |

28.0597 For those firms/individuals listed in the table for Question 28.05, do any firms/individuals unaffiliated with the reporting entity (i.e. designated with a "U") manage more than 10% of the reporting entity's assets? Yes [ X ] No [ ]

28.0598 For firms/individuals unaffiliated with the reporting entity (i.e. designated with a "U") listed in the table for Question 28.05, does the total assets under management aggregate to more than 50% of the reporting entity's assets? Yes [ X ] No [ ]

28.06 For those firms or individuals listed in the table for 28.05 with an affiliation code of "A" (affiliated) or "U" (unaffiliated), provide the information for the table below.

| 1<br>Central Registration Depository Number | 2<br>Name of Firm or Individual | 3<br>Legal Entity Identifier (LEI) | 4<br>Registered With | 5<br>Investment Management Agreement (IMA) Filed |
|---|---|---|---|---|
| 107313 | NISA Investment Advisors, LLC | 549300L1IG2JOW7XNY28 | SEC | NO |
| 106595 | Wellington Management Company LLP | 549300YHP12TEZNLCX41 | SEC | NO |
| 107342 | Fisher Investments, Inc. | 549300YOG7L5RIDRN993 | SEC | NO |
| 107105 | BlackRock Financial Management, Inc. | 549300LVXYIVJKE13M84 | SEC | NO |
| 104571 | Metropolitan West Asset Management LLC | 5493004MDKGXC00IY283 | SEC | NO |
| 105646 | Pyrford International, Ltd. | 549300N5W87B2ISAUG48 | SEC | NO |

29.1 Does the reporting entity have any diversified mutual funds reported in Schedule D-Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes [ X ] No [ ]

29.2 If yes, complete the following schedule:

| 1<br>CUSIP | 2<br>Name of Mutual Fund | 3<br>Book/Adjusted Carrying Value |
|---|---|---|
| 693390 60 1 | PIMCO Short-term Instl | $ 1,709,804 |
| 72201F 49 0 | PIMCO Income Instl | $ 38,481,214 |
| 29.2999 TOTAL | | $ 40,191,018 |

29.3 For each mutual fund listed in the table above, complete the following schedule:

| 1<br>Name of Mutual Fund (from above table) | 2<br>Name of Significant Holding of the Mutual Fund | 3<br>Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding | 4<br>Date of Valuation |
|---|---|---|---|
| PIMCO Short-term Instl | PIMCO Short Asset Portfolio | $ 377,867 | 09/30/2018 |
| PIMCO Short-term Instl | PIMCO Short-Term Floating NAV Portfolio III | $ 16,859 | 09/30/2018 |
| PIMCO Short-term Instl | Holmes Master Issuer PLC 2.561% due 10/15/2054 | $ 16,785 | 09/30/2018 |
| PIMCO Short-term Instl | VW CR, Inc. 2.800% due 12/10/2018 | $ 12,523 | 09/30/2018 |
| PIMCO Short-term Instl | Dell International LLC 3.480% due 06/01/2019 | $ 11,604 | 09/30/2018 |
| PIMCO Income Instl | Credit Suisse Mortgage Capital Trust 3.361% due 09/25/2048 | $ 1,047,843 | 09/30/2018 |
| PIMCO Income Instl | Credit Suisse Mortgage Capital Trust 3.939% due 06/01/2050 | $ 975,884 | 09/30/2018 |
| PIMCO Income Instl | Brazil Letras do Tesouro National 0.000% due 01/01/2019 | $ 901,230 | 09/30/2018 |
| PIMCO Income Instl | US Treasury Note 2.250% due 12/31/2023 | $ 768,085 | 09/30/2018 |
| PIMCO Income Instl | Fannie Mae 4.000% due 10/01/2047 | $ 648,408 | 09/30/2018 |

30. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

| | | 1<br>Statement (Admitted) Value | 2<br>Fair Value | 3<br>Excess of Statement over Fair Value (-), or Fair Value over Statement (+) |
|---|---|---|---|---|
| 30.1 | Bonds | $ 897,534,122 | $ 911,753,440 | $ 14,219,318 |
| 30.2 | Preferred Stocks | $ 756,802 | $ 756,802 | $ 0 |
| 30.3 | Totals | $ 898,290,924 | $ 912,510,242 | $ 14,219,318 |

30.4 Describe the sources or methods utilized in determining the fair values:

The Company obtains at least one price from a third party pricing service or its custodian, which also uses a pricing service, for bonds and preferred stocks. In most instances, the Company obtains more than one price and evalutes between the pricing sources for any outliers or stale prices. Assuming prices are not stale and are reasonable between sources, the Company uses a pre-established hierarchy to conclude on which pricing source to utilize.

31.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes [ X ] No [ ]

31.2 If the answer to 31.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [ X ] No [ ]

31.3 If the answer to 31.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:

32.1 Have all the filing requirements of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* been followed? Yes [ X ] No [ ]

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

32.2 If no, list exceptions:

33. By self-designating 5GI securities, the reporting entity is certifying the following elements for each self-designation 5GI security:
    a. Documentation necessary to permit a full credit analysis of the security does not exist or an NAIC CRP credit rating for an FE or PL security is not available.
    b. Issuer or obligor is current on all contracted interest and principal payments.
    c. The insurer has an actual expectation of ultimate payment of all contracted interest and principal.

    Has the reporting entity self-designated 5GI securities? Yes [ ] No [ X ]

34. By self-designating PLGI securities, the reporting entity is certifying the following elements of each self-designated PLGI security:
    a. The security was purchased prior to January 1, 2018.
    b. The reporting entity is holding capital commensurate with the NAIC Designation reported for the security.
    c. The NAIC Designation was derived from the credit rating assigned by an NAIC CRP in its legal capacity as an NRSRO which is shown on a current private letter rating held by the insurer and available for examination by state insurance regulators.
    d. The reporting entity is not permitted to share this credit rating of the PL security with the SVO.

    Has the reporting entity self-designated PLGI securities? Yes [ ] No [ X ]

## OTHER

35.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? $ 2,047,806

35.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

| 1<br>Name | 2<br>Amount Paid |
|---|---|
| Blue Cross Blue Shield Association | $ 1,342,103 |

36.1 Amount of payments for legal expenses, if any? $ 1,410,265

36.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

| 1<br>Name | 2<br>Amount Paid |
|---|---|
| | $ |

37.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? $ 166,741

37.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

| 1<br>Name | 2<br>Amount Paid |
|---|---|
| | $ |

# GENERAL INTERROGATORIES

## PART 2 – HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [ X ] No [ ]

1.2 If yes, indicate premium earned on U.S. business only. $ 420,781,140

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? $ 0

1.31 Reason for excluding:

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. $ 0

1.5 Indicate total incurred claims on all Medicare Supplement insurance. $ 341,414,664

1.6 Individual policies:

Most current three years:

| | | |
|---|---|---|
| 1.61 | Total premium earned | $ 66,214,519 |
| 1.62 | Total incurred claims | $ 57,387,065 |
| 1.63 | Number of covered lives | 43,432 |

All years prior to most current three years:

| | | |
|---|---|---|
| 1.64 | Total premium earned | $ 354,566,621 |
| 1.65 | Total incurred claims | $ 284,027,599 |
| 1.66 | Number of covered lives | 130,988 |

1.7 Group policies:

Most current three years:

| | | |
|---|---|---|
| 1.71 | Total premium earned | $ 0 |
| 1.72 | Total incurred claims | $ 0 |
| 1.73 | Number of covered lives | 0 |

All years prior to most current three years:

| | | |
|---|---|---|
| 1.74 | Total premium earned | $ 0 |
| 1.75 | Total incurred claims | $ 0 |
| 1.76 | Number of covered lives | 0 |

2. Health Test:

| | | 1<br>Current Year | 2<br>Prior Year |
|---|---|---|---|
| 2.1 | Premium Numerator | $ 2,615,762,137 | $ 2,656,090,417 |
| 2.2 | Premium Denominator | $ 2,615,762,137 | $ 2,656,090,417 |
| 2.3 | Premium Ratio (2.1/2.2) | 100.0% | 100.0% |
| 2.4 | Reserve Numerator | $ 421,984,380 | $ 430,238,208 |
| 2.5 | Reserve Denominator | $ 421,984,380 | $ 430,238,208 |
| 2.6 | Reserve Ratio (2.4/2.5) | 100.0% | 100.0% |

3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits? Yes [ ] No [ X ]

3.2 If yes, give particulars:

4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? Yes [ X ] No [ ]

4.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? Yes [ X ] No [ ]

5.1 Does the reporting entity have stop-loss reinsurance? Yes [ ] No [ X ]

5.2 If no, explain:

The Company retains all risk.

5.3 Maximum retained risk (see instructions)

| | | |
|---|---|---|
| 5.31 | Comprehensive Medical | $ 9,999,999 |
| 5.32 | Medical Only | $ 0 |
| 5.33 | Medicare Supplement | $ 9,999,999 |
| 5.34 | Dental and Vision | $ 9,999,999 |
| 5.35 | Other Limited Benefit Plan | $ 0 |
| 5.36 | Other | $ 0 |

6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Reserves exceed regulatory requirements. Member of Iowa Life & Health Insurance Guaranty Association under Iowa Code 508C.

# GENERAL INTERROGATORIES

## PART 2 – HEALTH INTERROGATORIES

7.1 Does the reporting entity set up its claim liability for provider services on a service date basis? Yes [ X ] No [ ]

7.2 If no, give details

8. Provide the following information regarding participating providers:

8.1 Number of providers at start of reporting year 8,828

8.2 Number of providers at end of reporting year 9,204

9.1 Does the reporting entity have business subject to premium rate guarantees? Yes [ ] No [ X ]

9.2 If yes, direct premium earned:

9.21 Business with rate guarantees with rate guarantees between 15-36 months $ 0

9.22 Business with rate guarantees over 36 months $ 0

10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contracts? Yes [ X ] No [ ]

10.2 If yes:

10.21 Maximum amount payable bonuses 25,754,118

10.22 Amount actually paid for year bonuses 20,723,469

10.23 Maximum amount payable withholds 0

10.24 Amount actually paid for year withholds 0

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model, Yes [ ] No [ X ]

11.13 An Individual Practice Association (IPA), or, Yes [ ] No [ X ]

11.14 A Mixed Model (combination of above)? Yes [ ] No [ X ]

11.2 Is the reporting entity subject to Statutory Minimum Capital and Surplus Requirements? Yes [ X ] No [ ]

11.3 If yes, show the name of the state requiring such minimum capital and surplus.
Iowa

11.4 If yes, show the amount required. $ 5,000,000

11.5 Is this amount included as part of a contingency reserve in stockholder's equity? Yes [ ] No [ X ]

11.6 If the amount is calculated, show the calculation

12. List service areas in which reporting entity is licensed to operate:

| 1<br>Name of Service Area |
|---|
| Iowa |
| South Dakota |

13.1 Do you act as a custodian for health savings accounts? Yes [ ] No [ X ]

13.2 If yes, please provide the amount of custodial funds held as of the reporting date. $ 0

13.3 Do you act as an administrator for health savings accounts? Yes [ ] No [ X ]

13.4 If yes, please provide the balance of the funds administered as of the reporting date. $ 0

14.1 Are any of the captive affiliates reported on Schedule S, Part 3, authorized reinsurers? Yes [ ] No [ ] N/A [ X ]

14.2 If the answer to 14.1 is yes, please provide the following:

| 1<br>Company Name | 2<br>NAIC Company Code | 3<br>Domiciliary Jurisdiction | 4<br>Reserve Credit | Assets Supporting Reserve Credit<br>5<br>Letters of Credit | Assets Supporting Reserve Credit<br>6<br>Trust Agreements | Assets Supporting Reserve Credit<br>7<br>Other |
|---|---|---|---|---|---|---|
| | 0 | | $ | $ | $ | $ |
| | | | | | | |

15. Provide the following for individual ordinary life insurance* policies (U.S. business only) for the current year (prior to reinsurance assumed or ceded).

15.1 Direct Premium Written $ 0

15.2 Total Incurred Claims $ 0

15.3 Number of Covered Lives 0

| ***Ordinary Life Insurance Includes** |
|---|
| Term (whether full underwriting, limited underwriting, jet issue, "short form app") |
| Whole Life (whether full underwriting, limited underwriting, jet issue, "short form app") |
| Variable Life (with or without secondary guarantee) |
| Universal Life (with or without secondary guarantee) |
| Variable Universal Life (with or without secondary guarantee) |

16. Is the reporting entity licensed or charted, registered, qualified, eligible or writing business in at least two states? Yes [ X ] No [ ]

16.1 If no, does the reporting entity assume reinsurance business that covers risks residing in at least one state other than the state of domicile of the reporting entity? Yes [ ] No [ X]

# FIVE-YEAR HISTORICAL DATA

| | 1<br>2018 | 2<br>2017 | 3<br>2016 | 4<br>2015 | 5<br>2014 |
|---|---|---|---|---|---|
| **Balance Sheet Items (Pages 2 and 3)** | | | | | |
| 1. Total admitted assets (Page 2, Line 28) | 2,438,665,980 | 2,423,522,882 | 2,129,480,667 | 2,043,927,418 | 2,018,044,802 |
| 2. Total liabilities (Page 3, Line 24) | 871,361,997 | 899,403,414 | 799,205,981 | 721,945,415 | 658,295,751 |
| 3. Statutory minimum capital and surplus requirement | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| 4. Total capital and surplus (Page 3, Line 33) | 1,567,303,983 | 1,524,119,468 | 1,330,274,686 | 1,321,982,003 | 1,359,749,051 |
| **Income Statement Items (Page 4)** | | | | | |
| 5. Total revenues (Line 8) | 2,625,888,455 | 2,646,943,303 | 2,656,267,827 | 2,535,836,243 | 2,409,436,738 |
| 6. Total medical and hospital expenses (Line 18) | 2,263,994,172 | 2,275,307,305 | 2,305,850,113 | 2,212,112,391 | 2,073,932,641 |
| 7. Claims adjustment expenses (Line 20) | 91,852,920 | 97,845,527 | 92,200,746 | 80,305,713 | 82,762,682 |
| 8. Total administrative expenses (Line 21) | 274,070,264 | 262,907,000 | 311,879,974 | 287,600,076 | 294,844,970 |
| 9. Net underwriting gain (loss) (Line 24) | (4,028,901) | 10,883,471 | (53,663,006) | (44,181,937) | (42,103,555) |
| 10. Net investment gain (loss) (Line 27) | 157,999,161 | 59,429,982 | 47,645,297 | 50,740,427 | 67,560,197 |
| 11. Total other income (Lines 28 plus 29) | (312,917) | (19,298,372) | (492,595) | (316,495) | (134,587) |
| 12. Net income or (loss) (Line 32) | 127,475,750 | 43,089,081 | (26,507,304) | (1,832,005) | 15,373,055 |
| **Cash Flow (Page 6)** | | | | | |
| 13. Net cash from operations (Line 11) | 11,906,851 | 46,705,072 | (818,390) | 9,876,191 | (26,314,624) |
| **Risk-Based Capital Analysis** | | | | | |
| 14. Total adjusted capital | 1,567,303,983 | 1,524,119,468 | 1,330,274,686 | 1,321,982,003 | 1,359,749,051 |
| 15. Authorized control level risk-based capital | 153,973,624 | 147,166,563 | 142,115,619 | 140,286,299 | 132,386,288 |
| **Enrollment (Exhibit 1)** | | | | | |
| 16. Total members at end of period (Column 5, Line 7) | 1,223,786 | 1,254,850 | 1,273,834 | 1,299,157 | 1,286,750 |
| 17. Total member months (Column 6, Line 7) | 14,804,430 | 15,050,662 | 15,216,983 | 15,535,137 | 15,356,046 |
| **Operating Percentage (Page 4)<br>(Item divided by Page 4, sum of Lines 2, 3, and 5) x 100.0** | | | | | |
| 18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 19. Total hospital and medical plus other non-health (Line 18 plus Line 19) | 86.2 | 86.0 | 86.8 | 87.2 | 86.1 |
| 20. Cost containment expenses | 0.7 | 0.8 | 0.7 | 0.7 | 1.1 |
| 21. Other claims adjustment expenses | 2.8 | 2.9 | 2.8 | 2.4 | 2.4 |
| 22. Total underwriting deductions (Line 23) | 100.2 | 99.6 | 102.0 | 101.7 | 101.7 |
| 23. Total underwriting gain (loss) (Line 24) | (0.2) | 0.4 | (2.0) | (1.7) | (1.7) |
| **Unpaid Claims Analysis (U&I Exhibit, Part 2B)** | | | | | |
| 24. Total claims incurred for prior years (Line 13, Col. 5) | 321,729,907 | 341,115,730 | 239,887,885 | 216,690,565 | 275,522,701 |
| 25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)] | 299,267,250 | 323,492,015 | 227,765,081 | 223,935,080 | 270,586,203 |
| **Investments in Parent, Subsidiaries and Affiliates** | | | | | |
| 26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1) | | | | | |
| 27. Affiliated preferred stocks (Sch D. Summary, Line 18, Col. 1) | | | | | |
| 28. Affiliated common stocks (Sch D. Summary, Line 24, Col. 1) | 491,359,226 | 495,750,290 | 414,739,140 | 403,191,015 | 405,977,457 |
| 29. Affiliated short-term investments (subtotal included in Sch. DA, Verification, Column 5, Line 10) | | | | | |
| 30. Affiliated mortgage loans on real estate | | | | | |
| 31. All other affiliated | | | | | |
| 32. Total of above Lines 26 to 31 | 491,359,226 | 495,750,290 | 414,739,140 | 403,191,015 | 405,977,457 |
| 33. Total investment in parent included in Lines 26 to 31 above | | | | | |

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [ ] No [ ]

If no, please explain:

# SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

| State, Etc. | 1 Active Status (a) | Direct Business Only 2 Accident & Health Premiums | 3 Medicare Title XVIII | 4 Medicaid Title XIX | 5 Federal Employees Health Benefits Plan Premiums | 6 Life & Annuity Premiums and Other Considerations | 7 Property/ Casualty Premiums | 8 Total Columns 2 Through 7 | 9 Deposit-Type Contracts |
|---|---|---|---|---|---|---|---|---|---|
| 1. Alabama AL | N | | | | | | | 0 | |
| 2. Alaska AK | N | | | | | | | 0 | |
| 3. Arizona AZ | N | | | | | | | 0 | |
| 4. Arkansas AR | N | | | | | | | 0 | |
| 5. California CA | N | | | | | | | 0 | |
| 6. Colorado CO | N | | | | | | | 0 | |
| 7. Connecticut CT | N | | | | | | | 0 | |
| 8. Delaware DE | N | | | | | | | 0 | |
| 9. District of Columbia DC | N | | | | | | | 0 | |
| 10. Florida FL | N | | | | | | | 0 | |
| 11. Georgia GA | N | | | | | | | 0 | |
| 12. Hawaii HI | N | | | | | | | 0 | |
| 13. Idaho ID | N | | | | | | | 0 | |
| 14. Illinois IL | N | | | | | | | 0 | |
| 15. Indiana IN | N | | | | | | | 0 | |
| 16. Iowa IA | L | 2,334,465,933 | | | 242,891,867 | | | 2,577,357,800 | |
| 17. Kansas KS | N | | | | | | | 0 | |
| 18. Kentucky KY | N | | | | | | | 0 | |
| 19. Louisiana LA | N | | | | | | | 0 | |
| 20. Maine ME | N | | | | | | | 0 | |
| 21. Maryland MD | N | | | | | | | 0 | |
| 22. Massachusetts MA | N | | | | | | | 0 | |
| 23. Michigan MI | N | | | | | | | 0 | |
| 24. Minnesota MN | N | | | | | | | 0 | |
| 25. Mississippi MS | N | | | | | | | 0 | |
| 26. Missouri MO | N | | | | | | | 0 | |
| 27. Montana MT | N | | | | | | | 0 | |
| 28. Nebraska NE | N | | | | | | | 0 | |
| 29. Nevada NV | N | | | | | | | 0 | |
| 30. New Hampshire NH | N | | | | | | | 0 | |
| 31. New Jersey NJ | N | | | | | | | 0 | |
| 32. New Mexico NM | N | | | | | | | 0 | |
| 33. New York NY | N | | | | | | | 0 | |
| 34. North Carolina NC | N | | | | | | | 0 | |
| 35. North Dakota ND | N | | | | | | | 0 | |
| 36. Ohio OH | N | | | | | | | 0 | |
| 37. Oklahoma OK | N | | | | | | | 0 | |
| 38. Oregon OR | N | | | | | | | 0 | |
| 39. Pennsylvania PA | N | | | | | | | 0 | |
| 40. Rhode Island RI | N | | | | | | | 0 | |
| 41. South Carolina SC | N | | | | | | | 0 | |
| 42. South Dakota SD | L | 38,404,337 | | | | | | 38,404,337 | |
| 43. Tennessee TN | N | | | | | | | 0 | |
| 44. Texas TX | N | | | | | | | 0 | |
| 45. Utah UT | N | | | | | | | 0 | |
| 46. Vermont VT | N | | | | | | | 0 | |
| 47. Virginia VA | N | | | | | | | 0 | |
| 48. Washington WA | N | | | | | | | 0 | |
| 49. West Virginia WV | N | | | | | | | 0 | |
| 50. Wisconsin WI | N | | | | | | | 0 | |
| 51. Wyoming WY | N | | | | | | | 0 | |
| 52. American Samoa AS | N | | | | | | | 0 | |
| 53. Guam GU | N | | | | | | | 0 | |
| 54. Puerto Rico PR | N | | | | | | | 0 | |
| 55. U.S. Virgin Islands VI | N | | | | | | | 0 | |
| 56. Northern Mariana Islands MP | N | | | | | | | 0 | |
| 57. Canada CAN | N | | | | | | | 0 | |
| 58. Aggregate Other alien OT | XXX | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 59. Subtotal | XXX | 2,372,870,270 | 0 | 0 | 242,891,867 | 0 | 0 | 2,615,762,137 | 0 |
| 60. Reporting entity contributions for Employee Benefit Plans | XXX | | | | | | | 0 | |
| 61. Total (Direct Business) | XXX | 2,372,870,270 | 0 | 0 | 242,891,867 | 0 | 0 | 2,615,762,137 | 0 |

**DETAILS OF WRITE-INS**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 58001. | | | | | | | 0 | |
| 58002. | | | | | | | 0 | |
| 58003. | | | | | | | 0 | |
| 58998. Summary of remaining write-ins for line 58 from overflow page | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 58999. Total (Lines 58001 through 58003 + 58998) (Line 58 above) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Explanation of basis of allocation by states, premiums by state, etc.**

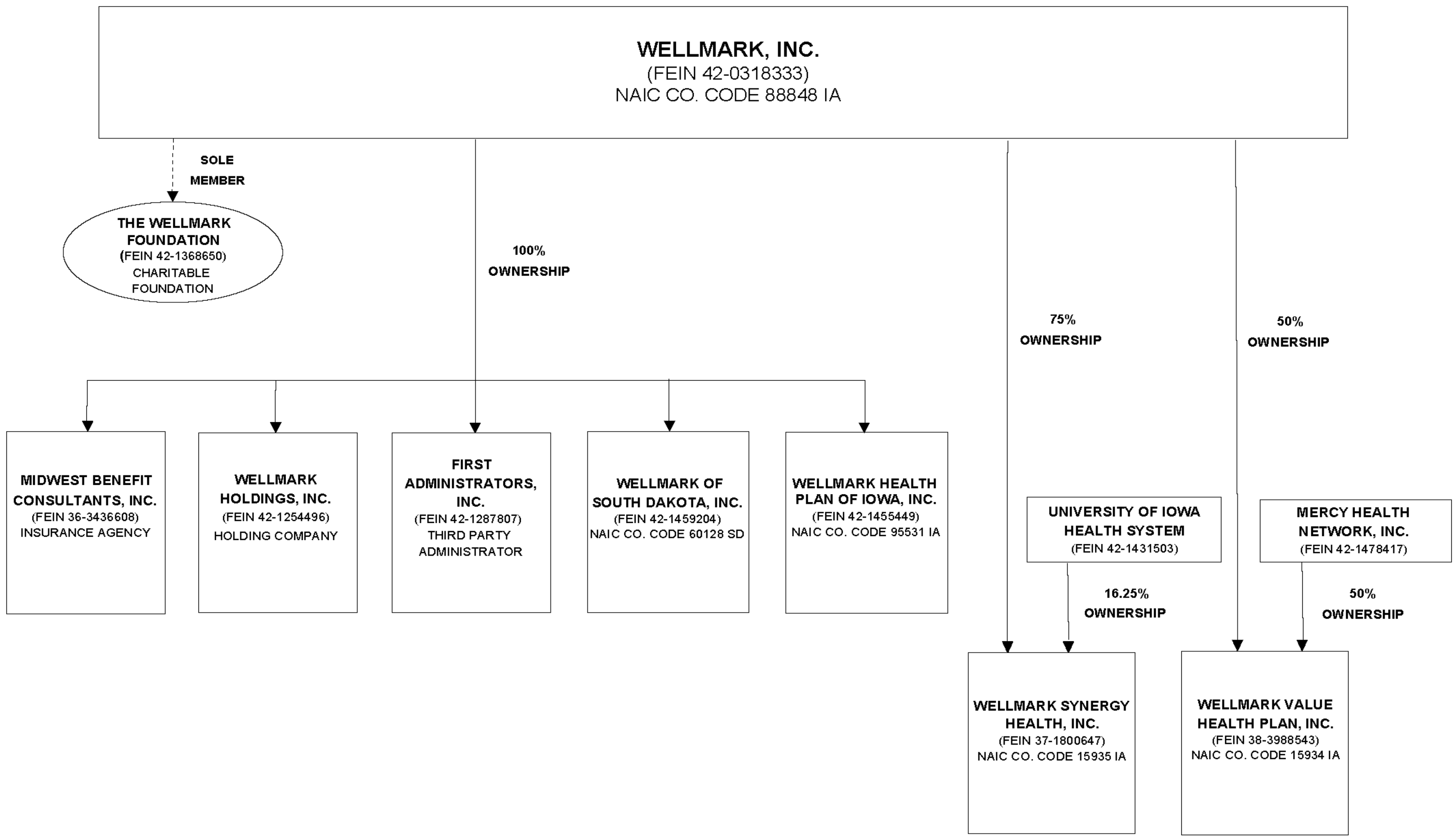
Accident and Health premiums are allocated according to the location of the group or individual purchaser at the point of issue.

(a) Active Status Counts:

| | | | |
|---|---|---|---|
| L - Licensed or Chartered - Licensed insurance carrier or domiciled RRG | 2 | R - Registered - Non-domiciled RRGs | 0 |
| E - Eligible - Reporting entities eligible or approved to write surplus lines in the state | 0 | Q - Qualified - Qualified or accredited reinsurer | 0 |
| | | N - None of the above - Not allowed to write business in the state | 55 |

# SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

## PART 1 – ORGANIZATIONAL CHART



# 2018 ALPHABETICAL INDEX
# HEALTH ANNUAL STATEMENT BLANK